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**STATE OF INDIANA
INDIANA UTILITY REGULATORY COMMISSION**

FILED

FEB 01 2007

**INDIANA UTILITY
REGULATORY COMMISSION**

**IN THE MATTER OF THE PETITION OF)
THE CITY OF PERU UTILITIES ELECTRIC) CAUSE NO. 43200
DEPARTMENT FOR APPROVAL OF A)
NEW SCHEDULE OF RATES AND CHARGES)**

VERIFIED DIRECT TESTIMONY

of

ROGER MERRIMAN

And

SCOTT A. MILLER, C.P.A.

On

Behalf of

Petitioner

City of Peru Utilities Electric Department

**Michael B. Cracraft (Atty. No. 3416-49)
Steven W. Krohne (Atty. No. 20969-49)
Hackman Hulett & Cracraft, LLP
111 Monument Circle, Suite 3500
Indianapolis, Indiana 46204
Phone: (317) 636-5401
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February 1, 2007

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February 1, 2007

1. The first part of the document is a letter from the President of the United States to the Congress, dated January 1, 1861. It is a very important document, as it contains the President's message to the Congress at the beginning of his first term.

2. The second part of the document is a report from the Secretary of the Treasury, dated January 1, 1861. It contains information about the state of the Treasury and the finances of the United States.

3. The third part of the document is a report from the Secretary of the Interior, dated January 1, 1861. It contains information about the state of the Interior and the resources of the United States.

4. The fourth part of the document is a report from the Secretary of the Navy, dated January 1, 1861. It contains information about the state of the Navy and the ships of the United States.

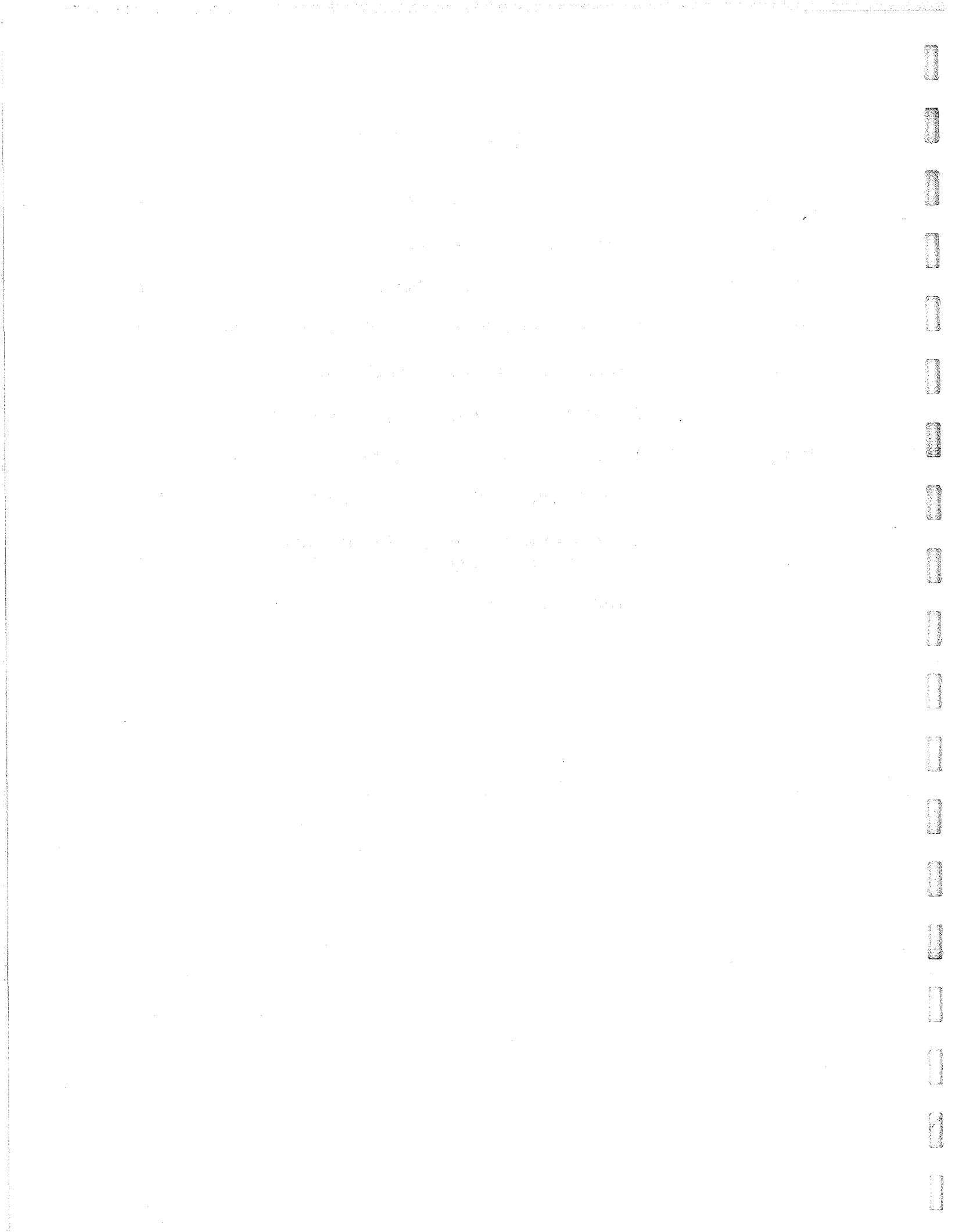
5. The fifth part of the document is a report from the Secretary of the War, dated January 1, 1861. It contains information about the state of the War and the troops of the United States.

6. The sixth part of the document is a report from the Secretary of the State, dated January 1, 1861. It contains information about the state of the State and the relations of the United States to other countries.

7. The seventh part of the document is a report from the Secretary of the Agriculture, dated January 1, 1861. It contains information about the state of the Agriculture and the products of the United States.

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ROGER MERRIMAN**

**On
Behalf of
Petitioner**

City of Peru Utilities Electric Department

Petitioner's Exhibit RM-1

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Roger Merriman. My business address is 335 East Canal Street, Peru,
3 Indiana 46970.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am the General Manager of the Peru Utilities which is a municipally owned,
6 multiple service utility owned and operated by the City of Peru, Indiana. Peru
7 Utilities provides electric, water and wastewater treatment services to the community
8 of Peru, Indiana, the neighboring Grissom Aeroplex and approximately one-third of
9 rural Miami County, Indiana.

10 **Q. PLEASE DESCRIBE BRIEFLY YOUR DUTIES AS THE GENERAL**
11 **MANAGER OF PERU UTILITIES.**

12 A. As General Manager of Peru Utilities, I am responsible for the planning, execution
13 and review of the operations and other activities of the electric, water and wastewater
14 utilities. I also am responsible for implementing the policies and decisions of the
15 Utility Service Board and Common Council of the City of Peru, Indiana relating to
16 the efficient and economical operation and maintenance of Peru Utilities.

17 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
18 **BACKGROUND.**

19 A. I was appointed General Manager of Peru Utilities in July of 1997. Prior to being
20 appointed General Manager, I served as Utilities Director for the City of Shelby,

1 Ohio, Director of Power Generation for American Municipal Power Ohio and
2 Director of the Oberlin, Ohio Municipal Light and Power System. In addition, I
3 served as Mayor of the City of Rensselaer, Indiana from 1980 to 1983. All in all, I
4 have been in the utility business for over 26 years.

5 **Q. PLEASE INDICATE ANY PROFESSIONAL POSITIONS OR**
6 **AFFILIATIONS YOU HOLD.**

7 A. I am the City of Peru's Commissioner on the Indiana Municipal Power Agency
8 ("IMPA") Board of Commissioners. I also serve as Co-Chairman of the joint
9 Legislative Committee of the Indiana Municipal Electric Association, Inc. and IMPA.

10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CAUSE?**

11 A. The purpose of my testimony is to provide background and support for the Petition
12 filed by the Peru Utilities Electric Department ("Peru" or the "Electric Department")
13 on December 22, 2006 requesting the approval of the Indiana Utility Regulatory
14 Commission ("Commission") to implement a new schedule of rates and charges for
15 electric service.

16 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION ON**
17 **BEHALF OF PERU?**

18 A. No, I have not.

19 **Q. BRIEFLY DESCRIBE THE ELECTRIC DEPARTMENT.**

20 A. The Electric Department serves approximately 10,944 customers in an assigned

1 service area that covers nearly 97 square miles in and around the City of Peru in
2 Miami County, Indiana. Peru's electric system includes transmission, distribution,
3 substation and power production facilities. The Electric Department owns 33 MW of
4 coal-fired generating capacity. However, Peru purchases all of its power and energy
5 requirements from IMPA pursuant to the terms of a Power Sales Contract. Under the
6 terms of a Capacity Purchase Agreement, Peru sells the output of its electric
7 generation to IMPA.

8 In 2006, Peru was designated as a Reliable Public Power Provider by the
9 American Public Power Association. The Reliable Public Power Provider program
10 recognizes public power providers in the United States that demonstrate proficiency
11 in four key disciplines of utility operations: (1) reliability, (2) safety, (3) training and
12 (4) system improvements. Peru was one of only 64 of the more than 2,000 public
13 power systems across the country that met the necessary criteria under the Reliable
14 Public Power Provider program. In 2002, the Electric Department was the recipient
15 of a Demonstration Energy Efficient Developments grant from the American Public
16 Power Association to produce a series of seven safety and training films which were
17 distributed to publicly owned utilities.

18 **Q. PLEASE DESCRIBE THE CONDITION OF PERU'S UTILITY PLANT AND**
19 **RELATED FACILITIES.**

20 **A.** Peru practices routine maintenance to ensure that all facilities and equipment are

1 continually kept in good working order and updated as required. We strive for
2 excellence in service continuity through a preventative maintenance program. In my
3 opinion, all of Peru's plant and equipment is in excellent condition and is used and
4 useful to provide reliable electric service to our customers.

5 **Q. PLEASE DESCRIBE WHAT HAS BEEN MARKED FOR IDENTIFICATION**
6 **PURPOSES AS PETITIONER'S EXHIBIT RM-2.**

7 A. Petitioner's Exhibit RM-2 is a copy of the December 22, 2006 Petition, which
8 initiated this proceeding.

9 **Q. PLEASE DESCRIBE WHAT HAS BEEN MARKED AS PETITIONER'S**
10 **EXHIBIT RM-3.**

11 A. Petitioner's Exhibit RM-3 is the Publisher's Affidavit for the legal notice announcing
12 the filing of the Petition with the Commission. As shown by the affidavit, the legal
13 notice was published in The Peru Tribune, a newspaper of general circulation in the
14 City of Peru and Miami County, Indiana on January 18, 2007.

15 **Q. WHEN WERE PERU'S CURRENT BASE RATES ESTABLISHED?**

16 A. Peru adopted its current schedule of rates and charges for electric service following
17 the Commission's approval of the Order in Cause No. 39357 on June 3, 1992 (as
18 corrected Nunc Pro Tunc on June 24, 1992). The Commission's Order in Cause No.
19 39357 authorized Peru to earn a return on plant of 5.88%. The Order further
20 approved an overall increase in the Electric Department's operating revenue of

1 11.0068% to be implemented in two phases (3.454% in phase I and 7.5528% in phase
2 II). Based on the results of a cost-of-service study, the Order in Cause No. 39357
3 also approved a reduction in the level of subsidy/excess revenues between customer
4 classes.

5 **Q. HAVE THE ELECTRIC DEPARTMENT'S COSTS INCREASED OVER THE**
6 **LAST 14 YEARS?**

7 A. Yes, costs associated with operating the Electric Department have increased
8 significantly over the last 14 years. As an example, during the test year used in Cause
9 No. 39357 (*i.e.*, the 12-month period ending September 30, 1991), employee benefit
10 costs were \$220,347. During the 12-month period ending March 31, 2006 employee
11 benefit costs were \$554,389. Employee benefit costs principally include expenses
12 associated with employee and retiree health and life insurance and employee
13 uniforms.

14 **Q. ARE PERU'S CURRENT RATES AND CHARGES FOR ELECTRIC**
15 **SERVICE ADEQUATE TO PRODUCE AN INCOME SUFFICIENT TO**
16 **MAINTAIN THE ELECTRIC DEPARTMENT PROPERTY IN A SOUND**
17 **PHYSICAL AND FINANCIAL CONDITION SO AS TO RENDER**
18 **ADEQUATE AND EFFICIENT SERVICE?**

19 A. No. It is my opinion, and the opinion of the Utility Service Board and Common
20 Council of the City of Peru, that current base rates and charges are not producing

1 sufficient income to allow the Electric Department to continue to provide efficient
2 electric service for the protection of the health, well being and property of Peru and
3 its electric customers. Existing rates and charges are not "reasonable rates and
4 charges" within the meaning of IC 8-1.5-3-8(c) because they do not produce
5 sufficient revenue to meet our statutory revenue requirements.

6 **Q. UPON WHAT INFORMATION DO YOU, THE UTILITY SERVICE BOARD**
7 **AND THE COMMON COUNCIL BASE THAT OPINION?**

8 A. The Electric Department engaged the services of H.J. Umbaugh & Associates, an
9 accounting firm specializing in utility cost of service and rates, to perform a financial
10 study of the Electric Department's revenue requirements under IC 8-1.5-3-8 for the
11 test year ending March 31, 2006. We are relying upon the rate study prepared on our
12 behalf by H.J. Umbaugh & Associates, however, we also are aware of the inadequacy
13 of the revenues from existing rates and charges.

14 **Q. WAS THE FINANCIAL STUDY COMPLETED AND ACTED UPON?**

15 A. Yes. The results of the financial study are described in the direct testimony and
16 exhibits of Petitioner's witness Scott A. Miller. The results of the study were
17 presented to Peru's Utility Service Board. Based on the results of the study and input
18 from Peru's management, the Utility Service Board recommended that the Electric
19 Department seek Commission authority to increase its rates and charges. Mr. Miller
20 is sponsoring Petitioner's Exhibit SAM-2, which is the Accounting Report on Study

1 of Electric Utility Rates and Charges.

2 **Q. PLEASE IDENTIFY WHAT HAS BEEN MARKED AS PETITIONER'S**
3 **EXHIBIT RM-4.**

4 A. Petitioner's Exhibit RM-4 is a certified copy of Ordinance No. 33, 2006 of the City's
5 Common Council, dated January 8, 2007, adopting a proposed schedule of rates and
6 charges reflecting the results of the rate study conducted by Mr. Miller of H.J.
7 Umbaugh & Associates and presented to the Council. Exhibit No. 1 to Ordinance
8 No. 33, 2006 reflects that the proposed revised rates and charges will be implemented
9 in two Phases. In Phase I, Peru would implement a 5.15% across-the-board increase
10 in its present rates and charges to become effective immediately upon the
11 Commission's approval of the proposed rate increase. The Phase II rates would take
12 effect one year after the implementation of the Phase I rates, and represent a 10.3%
13 across-the-board increase in present rates and charges (an approximate 4.9% increase
14 over Phase I).

15 **Q. IN ORDINANCE NO. 33, 2006 DID THE COMMON COUNCIL ELECT TO**
16 **INCLUDE IN THE PROPOSED RATES AND CHARGES FOR ELECTRIC**
17 **SERVICE A REASONABLE RETURN ON THE UTILITY PLANT OF ITS**
18 **MUNICIPALLY OWNED ELECTRIC UTILITY IN ACCORDANCE WITH**
19 **IC 8-1.5-3-8(f)(1)?**

20 A. Yes, it did. We are asking for a 5% return on net plant.

1 **Q. WHY DID PERU SELECT THE TWELVE MONTH PERIOD ENDING**
2 **MARCH 31, 2006 TO BE THE TEST YEAR FOR THIS PROCEEDING?**

3 **A.** Peru began considering the need for an increase in its rates and charges in December
4 of 2005. In early March, 2006, the Electric Department retained H.J. Umbaugh &
5 Associates to perform a rate study. H.J. Umbaugh performed the initial "field work"
6 necessary to complete the rate study in May 2006 and used the 12-month period
7 ending March 31, 2006 as the test year. H.J. Umbaugh finished its field work in June
8 2006.

9 On August 30, 2006, H.J. Umbaugh recommended to the Utility Service
10 Board, based on the results of its rate study, that the Electric Department increase its
11 rates and charges. On October 2, 2006, the Utility Service Board recommended that
12 the Common Council approve a 10.3% across-the-board increase in the Electric
13 Department's rates and charges. The Common Council, however, disapproved the
14 proposed rate increase at its November 6, 2006 meeting.

15 Thereafter, the Electric Department and Utility Service Board, with the
16 assistance of H.J. Umbaugh, began considering alternative proposals to present to the
17 Common Council. On December 4, 2006, the Electric Department proposed that
18 instead of a 10.3% electric rate increase, an approximate 5% increase be implemented
19 each year for two years. The Common Council held a public hearing to discuss the
20 Electric Department's revised proposal on January 3, 2007. The Common Council

1 adopted Ordinance No. 33, 2006 approving a phased-in rate increase on January 8,
2 2007.

3 **Q. WHY DID THE COMMON COUNCIL DECIDE TO IMPLEMENT THE**
4 **RATE INCREASE IN TWO PHASES?**

5 A. The Common Council decided to implement the rate increase in two phases in an
6 effort to mitigate the impact of the proposed increase on the Electric Department's
7 customers. The Common Council was concerned (as were the Electric Department
8 and Utility Service Board) that if the full base rate increase were to be implemented
9 upon the Commission's issuance of a final Order in this proceeding, the impact on
10 bills might be overly burdensome for some customers.

11 **Q. HAVE YOU REVIEWED THE TESTIMONY AND EXHIBITS SUBMITTED**
12 **BY MR. MILLER OF H. J. UMBACH & ASSOCIATES?**

13 A. Yes, I have.

14 **Q. WHAT PORTION OF THE PROPOSED NET OPERATING INCOME WILL**
15 **BE USED TO FUND ON-GOING CAPITAL EXPENDITURES?**

16 A. Peru intends to use \$607,330 of its proposed net operating income, along with the pro
17 forma depreciation allowance of \$1,466,484 to fund its on-going capital improvement
18 budget. Copies of the capital improvement budgets of Peru's Power Production
19 Department and Electric Transmission and Distribution Department for the years
20 2007 through 2011, are attached hereto as Petitioner's Exhibit RM-5.

1 Among the most significant capital improvements that must be completed is
2 the construction of a new substation in the southern portion of its assigned service
3 area (i.e., Substation #6) at an expected cost of \$1,200,000. Currently, one of Peru's
4 largest electric customers, Armor-Eckrich, has an 8.5 megawatt monthly demand for
5 energy. Peru can accommodate the Armor-Eckrich plant right now, but there is no
6 backup if the Electric Department needs to take a substation down for maintenance.
7 The proposed \$1,200,000 substation will be used to provide back up power to the
8 Armor-Eckrich plant and surrounding area. The new Substation #6 also could be
9 used to serve any expansion of the Armor-Eckrich plant or other growth within the
10 surrounding southern portion of the Electric Department's assigned service area.

11 The Electric Department also needs to construct an additional substation along
12 the transmission loop around the City at an expected cost of \$1,000,000, which will
13 be known as the Canal Street Substation. Currently, Peru operates three substations
14 along the transmission loop. If one of those substations were out-of-service, the
15 Electric Department would be unable to serve its customers during peak demand
16 periods. Peru intends to construct the Canal Street Substation in 2009.

17 The Electric Department has limited its budgeted capital improvement
18 expenditures for 2007 due to uncertainty with respect to its financial position.
19 Therefore, in 2007, Peru intends to complete only the work the Electric Department
20 feels is absolutely necessary to maintain its existing facilities. Originally, Peru

1 budgeted funds to construct Substation #6 during 2007. Essentially, Peru has delayed
2 the more costly projects for completion further out in its 5-year improvement plan.

3 **Q. PLEASE DESCRIBE THE POLE TESTING PROGRAM DISCUSSED IN MR.**
4 **MILLER'S TESTIMONY.**

5 A. Rotting utility poles can present serious safety concerns and liability issues. Decay is
6 usually not easily identified since 90% of utility pole failure is caused by interior
7 rotting at or just below ground level. Therefore, Peru has included \$50,000 in its
8 2007 budget to be used to fund a comprehensive pole testing program. Peru intends to
9 hire an outside consultant to conduct a visual inspection of all of its utility poles. To
10 the extent the consultant believes necessary, a physical inspection will be performed
11 on individual poles. The physical inspection could include boring into poles and
12 removing "plugs" for laboratory analysis.

13 Peru intends for the pole testing program to be on-going. The consultant will
14 be asked to periodically re-test Peru's utility poles to ensure that they remain safe. I
15 believe the proposed pole testing program will greatly enhance the Electric
16 Department's ability to predict pole failure, which will not only allow Peru to
17 continue to provide adequate and reliable electric service to its customers, but also
18 prevent the unnecessary replacement of poles and thereby save time and money.

19 **Q. WHY IS PERU PROPOSING TO INCLUDE \$9,400 IN ITS ANNUAL**
20 **REVENUE REQUIREMENTS TO FUND A NEWSLETTER TO BE**

1 **PERIODICALLY DISTRIBUTED TO CUSTOMERS?**

2 A. The newsletter will be used to by Peru to communicate with the customers of its
3 electric, water and wastewater treatment utilities. As indicated in Mr. Miller's
4 testimony, the annual cost of the newsletter will be allocated to each utility based on
5 their respective customer count. The newsletter will be used to convey safety
6 information regarding the use of electricity and methods by which customers can
7 conserve energy or reduce their electricity cost. In addition, the newsletter will
8 inform customers about Peru's tariff offerings and provide customers with additional
9 information about the Electric Department and its employees.

10 Peru intends to distribute the newsletter to its customers on a quarterly basis.
11 Peru previously sent a quarterly newsletter to customers, but has not done so since
12 2004. In my opinion, the newsletter is an effective means of communicating
13 important information to Peru's customers. Copies of the two most recent quarterly
14 newsletters that Peru included with customer bills are attached as Petitioner's Exhibit
15 RM-6.

16 **Q. WILL PERU NOTIFY ITS RESIDENTIAL CUSTOMERS OF THE**
17 **PROPOSED INCREASE IN RATES AND CHARGES FOR ELECTRIC**
18 **SERVICE?**

19 A. Yes. In March 2007, the Electric Department included an insert with its monthly bill
20 to all residential customers advising them of Peru's need to increase its rates and

1 charges for electric service. The insert advised residential customers that the average
2 residential customer using 1,000 Kwh per month would pay \$71.86 upon the
3 implementation of the proposed Phase I rates, which represents an approximate
4 5.15% increase in rates. The insert further indicated that the average residential
5 customer using 1,000 Kwh per month would pay \$75.38 upon the implementation of
6 the proposed Phase II rates, which represents an approximate 10.3% increase over
7 present rates and charges.

8 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY IN THIS**
9 **PROCEEDING?**

10 **A. Yes, at this time.**

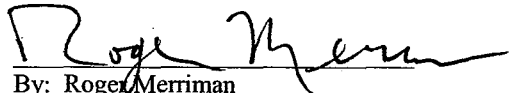
VERIFICATION

STATE OF INDIANA)

COUNTY OF MIAMI)

ss:

The undersigned, Roger Merriman, under penalties of perjury and being first duly sworn on his oath, says that he is General Manager of the City of Peru Utilities Electric Department; that he caused to be prepared and read the foregoing Verified Direct Testimony; and that the representations set forth therein are true and correct to the best of his knowledge, information and belief.

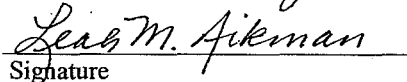


By: Roger Merriman

General Manager

City of Peru Utilities Electric Department

Subscribed and sworn to before me, a Notary Public, this 30 day of January, 2007.



Signature

Leah M. Aikman
Printed Name

My Commission Expires: 8-24-09

My County of Residence: Miami

FILED

DEC 22 2006

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

INDIANA UTILITY
REGULATORY COMMISSION

**IN THE MATTER OF THE PETITION)
OF THE CITY OF PERU UTILITIES)
ELECTRIC DEPARTMENT FOR)
APPROVAL OF A NEW SCHEDULE OF)
RATES AND CHARGES)**

43200
CAUSE NO. _____

PETITION

City of Peru Utilities Electric Department ("Petitioner") respectfully petitions the Indiana Utility Regulatory Commission (the "Commission") for approval of a new schedule of rates and charges for electric service. In support thereof, Petitioner shows the Commission as follows:

Nature of Petitioner and Regulatory Status

1. The City of Peru, Indiana is a municipality, owning and operating its own electric utility, with offices located at 335 East Canal Street, P.O. Box 67, Peru, Indiana 46907-0067.

Petitioner is authorized to and is engaged in the furnishing of electricity to approximately 10,835 residential, commercial and industrial consumers located within its assigned service area.

2. Petitioner collects rates and charges for the electric services it renders, which rates and charges are subject to the approval of the Commission and the Common Council of the City of Peru, Indiana pursuant to IC 8-1.5-3-8. Petitioner is subject to the jurisdiction of the Commission in the manner and to the extent provided by the laws of the State of Indiana, including IC 8-1.5-3-1 et seq. and certain provisions of the Public Service Commission Act, as amended.

3. Petitioner is a member of the Indiana Municipal Power Agency ("Agency") and purchases all of its electric power and energy requirements from the Agency pursuant to the terms of a Power Sales Contract.

Petitioner's Present Rates

4. Petitioner placed into effect its current schedule of rates and charges following the Commission's approval thereof in Cause No. 39357 (Order dated June 3, 1992, as amended by Nunc Pro Tunc Order dated June 24, 1992).

5. Pursuant to IC 8-1.5-3-8, Petitioner's rates and charges for electric service "must be non-discriminatory, reasonable, and just." Petitioner is further obligated by law to maintain rates and charges for services rendered to "produce an income sufficient to maintain the utility property in a sound physical and financial condition to render adequate and efficient service." (IC 8-1.5-3-8(d)).

6. Petitioner's existing rates and charges for electric service result in the collection of annual revenues from Petitioner's customers which do not meet Petitioner's requirements for reasonable and just rates and charges for services under IC 8-1.5-3-8. Petitioner's existing rates and charges are and will be too low and insufficient to:

“(1) Pay all the legal and other necessary expenses incident to the Operation of the utility, including:

- (A) Maintenance costs;
- (B) Operating charges;
- (C) Upkeep;
- (D) Repairs;
- (E) Depreciation; and
- (F) Interest charges on bonds or other obligations, including leases;

(2) Provide a sinking fund for the liquidation of bonds or other obligations, including leases;

(3) Provide a debt service reserve for bonds or other obligations, including leases, in an amount established by the municipality, not to exceed the maximum annual debt service on the bonds or obligations or the maximum annual lease rentals;

(4) Provide adequate money for working capital;

(5) Provide adequate money for making extensions and replacements to the extent not provided for through depreciation in subdivision (1); and

(6) Provide money for the payment of any taxes that may be assessed against the utility.”

Further, Petitioner’s existing rates and charges do not permit Petitioner to earn a reasonable return on Petitioner’s utility plant, which is used and useful to provide service. Therefore, Petitioner’s rates and charges presently in effect are and will be unlawful under IC 8-1.5-3-8.

7. Petitioner must increase its annual revenues and income produced from its rates and charges for electric services so that it can continue to operate and maintain its electric utility system in satisfactory physical and financial condition to render reasonably adequate and efficient service to its customers and to meet the requirements for reasonable and just rates and charges for services under IC 8-1.5-3-8(c), (d) and (e).

Petitioner’s Proposed Rates

8. Petitioner proposes, subject to the authorization and approval of this Commission, to cancel its existing schedule of rates and charges for electric service and to file with the Commission, in lieu thereof, a new schedule of rates and charges, which will provide reasonable and just charges for services within the meaning of IC 8-1.5-3-8. Such proposed schedule of rates and charges will be accompanied by the prepared direct testimony and exhibits of Petitioner’s witnesses and will be filed with the Commission prior to the commencement of public hearings in Petitioner’s case-in-chief.

9. Petitioner's proposed schedule of rates and charges will roll-in the most current Agency base rate-related tracking factor governing its purchases of electricity from the Agency.

Test Year and Request For Prehearing Conference

10. In accordance with 170 IAC 1-1.1-9(b) of this Commission's Rules and Regulations, Petitioner proposes that the 12-month period ended March 30, 2006, be the test year fixed by the Commission, and that the cut-off date for any required adjustments that are reasonably known, fixed and measurable, be 12 months following the end of the test year, except for certain taxes or payments in lieu thereof.

11. The names and address of Petitioner's attorneys in this matter are Michael B. Cracraft and Steven W. Krohne, Hackman Hulett & Cracraft, LLP, 111 Monument Circle, Suite 3500, Indianapolis, Indiana 46204-2030. Said attorneys are duly authorized to accept service of papers in this Cause on behalf of Petitioner.

12. In order to expedite the proceedings in this Cause and to avoid unnecessary expense to Petitioner and its customers, Petitioner respectfully requests that a date be promptly fixed for a Prehearing Conference in this matter to establish a schedule for prefilings testimony and exhibits and to establish a hearing date in this Cause.

WHEREFORE, Petitioner respectfully prays that the Indiana Utility Regulatory Commission make such investigation and hold such hearings as it shall deem necessary and advisable in this proceeding and thereafter make and enter an order in this Cause:

- (i) Authorizing and approving the filing by Petitioner with this Commission and placing into effect of new schedules of rates and charges for electric service; and
- (ii) Making such further orders granting such other and further relief as the Commission may deem appropriate and proper in the premises.

DATED this 21 day of December, 2006.

PERU UTILITIES ELECTRIC DEPARTMENT

By: Roger Merriman
Roger Merriman, General Manager

STATE OF INDIANA)
) SS:
COUNTY OF MIAMI)

Roger Merriman, being first duly sworn upon oath, deposes and says that he is the General Manager, City of Peru Utilities; that in such capacity he has executed the above and foregoing Petition and has authority so to do; that he has read said Petition and knows the contents thereof; and that the statements and representations therein contained are true to the best of his knowledge, information and belief.

Roger Merriman
Roger Merriman, General Manager
City of Peru Utilities

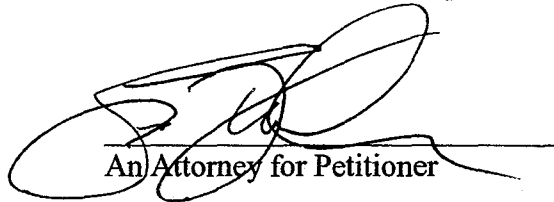
Subscribed and sworn to before me, a Notary Public in and for said County and State, this
21 day of December, 2006.

My Commission Expires:
8-24-2009

Leah M. Freeman
Notary Public
Printed: 12-21-2006
County of Residence: Miami

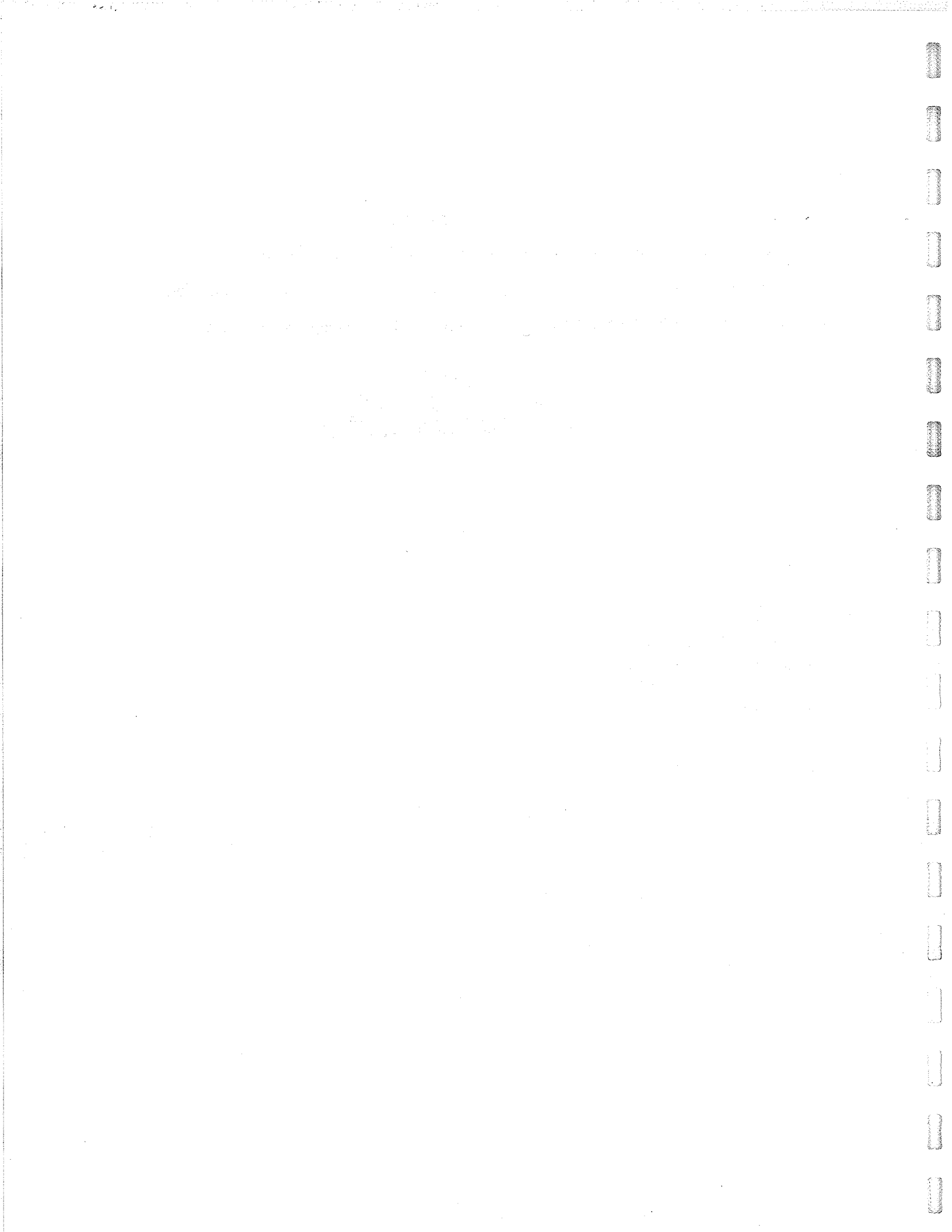
CERTIFICATE OF SERVICE

I hereby certify that on this 22nd day of December, 2006 a copy of the foregoing
"Petition" has been served by personal delivery to the Office of Utility Consumer Counselor,
Government Center North, 100 North State Street, Room N501, Indianapolis, IN 46204.


An Attorney for Petitioner

Michael B. Cracraft
Steven W. Krohne
Hackman Hulett & Cracraft, LLP
111 Monument Circle, Suite 3500
Indianapolis, IN 46204-2030
(317) 636-5401

Attorneys for Petitioner
City of Peru Utilities



PERU UTILITIES
(Governmental Unit Name)

Peru Tribune
PO Box 87
Peru, IN 46970
Miami County, IN

PUBLISHER'S CLAIM

LINE COUNT

Display Matter (Must not exceed two actual lines, neither of which shall total more than four solid lines of type in which the body of the advertisement is set) ----- number of equivalent li

Head -- number of lines

Body -- number of lines

Tail ----number of lines

Total number of lines in notice

21

COMPUTATION OF CHARGES

21 Lines, 3 Columns wide or 63 equivalent lines
at 0.274 cents per line

\$17.26

Additional charge for notices containing rule or tabular work
(50 percent of the above amount)

Charge for extra proofs of publication (\$1.00 for each proof
in excess of two)

TOTAL AMOUNT OF CLAIM

\$17.26

DATA FOR COMPUTING COST

Width of single column 1 3/16"
Number of insertions 1
Size of type 7

Pursuant to the provisions and penalties of Chapter 155 Acts 1953,

I hereby certify that the foregoing account is just and correct, that the amount claimed is legally due, after showing all just credits, and that no part of the same has been paid.

Date: January 18, 2007

JOLENE DUNPHY
Legal Billing Clerk
Title

PUBLISHER'S AFFIDAVIT

State of Indiana)

Miami County)

Personally appeared before me, a notary public in and for said county of Miami, Indiana and state, the undersigned Legal Billing Clerk who, being duly sworn, says that she is JOLENE DUNPHY of the Peru Tribune, newspaper of the city of Peru in state and county aforesaid, and the the printed matter attached hereto is a true copy, which was duly published in said paper for 1 (ONE TIME) the dates of publication being as follows: January 18, 2007

Subscribed and sworn before me this 18th day of January, 2007.

Stephanie S. Plant
Resident of Cass County
My Commission Expires: October 17, 2014

LEGAL #0046

PUBLIC NOTICE
CAUSE NO. 43200

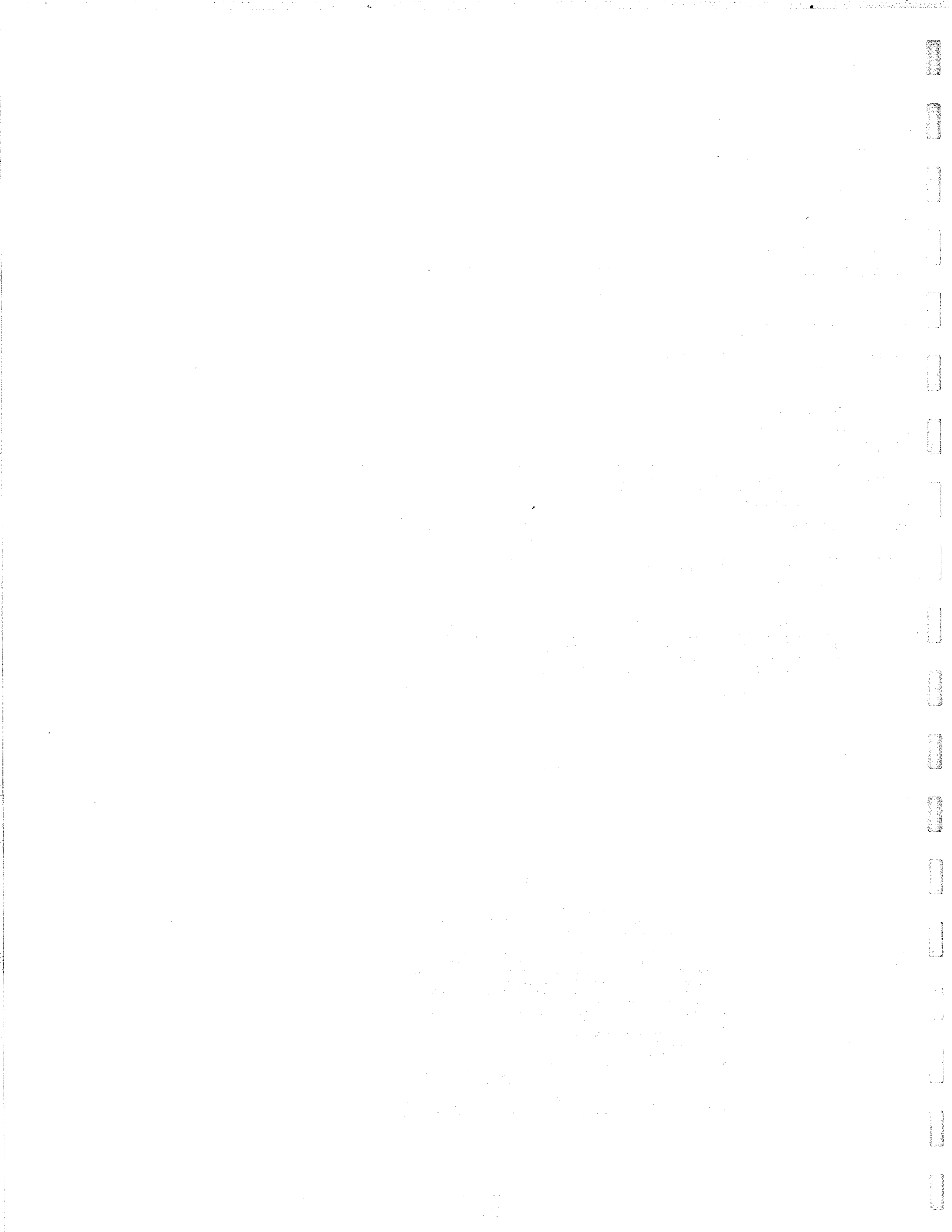
IN THE MATTER OF THE PETITION OF THE CITY OF PERU
UTILITIES ELECTRIC DEPARTMENT FOR APPROVAL OF A NEW
SCHEDULE OF RATES AND CHARGES

PUBLIC NOTICE is hereby given that, on December 22, 2006, the City of Peru, Indiana, by its municipal electric utility, Peru Utilities Electric Department, filed with the Indiana Utility Regulatory Commission a verified petition seeking approval of a new schedule of electric rates and charges. On January 8, 2007, the Common Council adopted a Rate Ordinance authorizing an increase in rates and charges for electric service subject to the approval of the Indiana Utility Regulatory Commission. The details of the filing are set forth in said petition and in testimony and exhibits to be filed with the Commission in Cause No. 43200.

Peru Utilities Electric Department
Roger Merriman
General Manager

Jackie Gray, Clerk-Treasurer
City of Peru, Indiana

Legal No. L07-0046 January 18, 2007

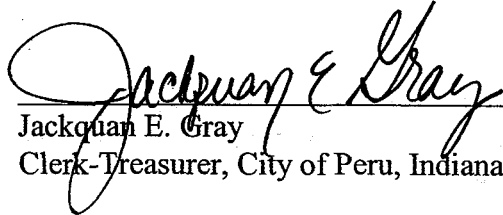


CERTIFICATION AND ATTESTATION OF OFFICIAL RECORDS

I, Jackquan E. Gray, hereby attest and certify that I am the Clerk-Treasurer of the City of Peru and, in such capacity, supervise the maintenance of the documents and records of the Common Council of the City of Peru.

In my capacity as Clerk-Treasurer, I hereby certify the attached is a complete and true copy of Ordinance No. 33, 2006, as adopted by the Common Council of the City of Peru on January 8, 2007.

IN WITNESS WHEREOF, I have signed this Certification and Attestation and affixed hereto the official seal of the City of Peru.



Jackquan E. Gray
Clerk-Treasurer, City of Peru, Indiana

(SEAL)


STATE OF INDIANA)
)SS:
COUNTY OF MIAMI)

Before me, a Notary Public in and for said County and State, personally appeared Jackquan E. Gray, Clerk-Treasurer of the City of Peru, who acknowledged the execution of the above and foregoing to be her voluntary act and deed, and who swore to the truth of the matters therein.

WITNESS my hand and notarial seal this 9 day of January, 2007.

My Commission Expires:

6/29/2008



Notary Public
Printed: Dea Masters
Resident of miami
County

ORDINANCE NO. 33, 2006

**AN ORDINANCE REPEALING ORDINANCE NO. 24, 1992,
AND INSERTING IN ITS PLACE A NEW SCHEDULE OF
RATES AND CHARGES FOR SERVICES PROVIDED BY THE
MUNICIPAL ELECTRIC UTILITY OF THE CITY OF PERU, INDIANA**

WHEREAS, the City of Peru, Indiana, owns a municipally owned electric utility for the purpose of generating and distributing electric energy in said city and surrounding areas; and

WHEREAS, the Utility Service Board, established by Ordinance No. 67, 1982, has recommended that rates and charges be changed from those established by Ordinance No. 24, 1992, to rates and charges detailed in Exhibit One to this Ordinance; and

WHEREAS, a public hearing was conducted by the Common Council of the City of Peru on the 3rd day of January, 2007, at 6:00 p.m. in the Council Chamber of Peru City Hall, located at 35 South Broadway in the City of Peru, notice of which was advertised pursuant to statute; and


WHEREAS, the proposed rates and charges are in all respects reasonable and non-discriminatory and will provide sufficient revenue to pay all costs associated with the operation, maintenance and system improvements of said Municipal Electric Department;

NOW THEREFORE BE IT ORDAINED by the Common Council of the City of Peru, Indiana that;

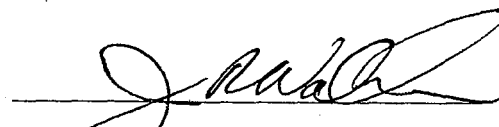
1. For the use of, and service rendered by, the electric utility of the City of Peru, rates and charges collected from the owner or occupant of each lot, parcel of real estate or building connected to the city's electric service, either directly or indirectly, billed and payable hereinafter, shall be in an amount determined by the number of kilowatts used on or in the property or premises, subject to the rates as set forth in Exhibit One (1) which is made a part of this Ordinance by incorporation.

2. Concurrently with the effective date of the rates and charges established by this Ordinance, the repeal of Ordinance 24, 1992, shall be effective. All other Ordinances in conflict herewith are hereby repealed.
3. The rates and charges herein approved shall take effect the first day of the month following approval by the Indiana Utility Regulatory Commission if the schedule of rates and charges are approved as submitted. If the schedule of rates and charges is amended by the Indiana Utility Regulatory Commission, the effective date will later be established by this Council.

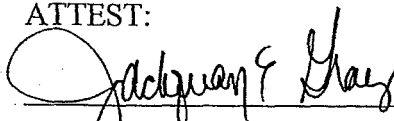
ADOPTED AND ENACTED by the Common Council of the City of Peru, Indiana, on this 8 day of Jan., 2007, by of vote of 5 Yea and 2 Nay votes.


James R. Walker, President

Approved by me this 8th day of January, 2007.


James R. Walker, Mayor

ATTEST:


Jackquan Gray, Clerk Treasurer

**PROPOSED AMENDMENT TO
ORDINANCE NO. 33, 2006**

4. The Council hereby elects to include in the rates and charges for electrical service attached hereto as Exhibit #1 a reasonable return on the utility plant of its municipally owned electric utility, in accordance with I.C. § 8-1.5-3-8(f)(1), as recommended to the Council by the Peru Utility Service Board by the authority of I.C. § 8-1.5-3-8(e).

PERU (INDIANA) MUNICIPAL ELECTRIC UTILITY

SCHEDULE OF PRESENT AND PROPOSED RATES AND CHARGES

		Present (1)	Approved 3rd Quarter 2006 Tracker	Total	Phase	
					I (2)	II (3)
<u>Schedule RS-1 (Residential Service)</u>						
Energy Charge, Per Month:						
First	300 KWH	\$0.05834	\$0.011560	\$0.06990	\$0.07350	\$0.07710
Next	700 KWH	0.05075	0.011560	0.06231	0.06552	0.06873
Above	1,000 KWH	0.04780	0.011560	0.05936	0.06242	0.06547

Service Charge, Per Month:

Service Within City Limits:	3.75	3.94	4.14
Service Outside City Limits:	5.70	5.99	6.29

Minimum Charge, Per Month:

The monthly minimum charge shall be the applicable service charge.

Schedule GSA-1 (General Service)

Energy Charge, Per Month:

First	500 KWH	0.06340	0.014044	0.07744	0.08143	0.08542
Next	2,000 KWH	0.05235	0.014044	0.06639	0.06981	0.07323
Next	2,500 KWH	0.04718	0.014044	0.06122	0.06437	0.06753
Above	5,000 KWH	0.04496	0.014044	0.05900	0.06204	0.06508

Service Charge Per Month:

Service Within City Limits - Single Phase	4.50	4.73	4.96
Service Outside City Limits - Single Phase	6.40	6.73	7.06
Service Within City Limits - Three Phase	5.60	5.89	6.18
Service Outside City Limits - Three Phase	8.00	8.41	8.82

Minimum Charge, Per Month:

The monthly minimum charge shall be the applicable service charge.

- (1) Present rates and charges per IURC Cause No. 39357, June of 1992
- (2) Represents a 5.15% Phase I across-the-board increase in present rates and charges to become effective immediately upon approval of the IURC.
- (3) Represents a total 10.30% across-the-board increase in present rates and charges (an approximate 4.90% increase over Phase I) to become effective one year after the implementation of the Phase I rates and charges.

(Continued on next page)

(Subject to the comments in the attached
letter dated December 4, 2006 of Umbaugh)

PERU (INDIANA) MUNICIPAL ELECTRIC UTILITY

(Cont'd)

SCHEDULE OF PRESENT AND PROPOSED RATES AND CHARGES

	Present (1)	Approved 3rd Quarter Tracker	Total	Phase	
				I (2)	II (3)
<u>Schedule PS (Power Service)</u>					
Charge Per KWH, Per Month	\$0.030417	\$0.013460	\$0.043877	\$0.046137	\$0.048396
Charge Per KW, Per Month	5.50			5.78	6.07
Minimum Charge, Per Month					
The monthly minimum charge shall be the demand charge.					
<u>Schedule SL-1 (Security Lighting Service)</u>					
Charge Per Type of Lamp, Per Month					
175 watt mercury vapor	\$4.97			5.23	5.48
400 watt mercury vapor	7.47			7.85	8.24
100 watt sodium vapor	3.49			3.67	3.85
250 watt sodium vapor	6.70			7.05	7.39
<u>Schedule TL (Traffic Signal Service)</u>					
Charge Per KWH, Per Month	0.04612	0.010831	0.05695	0.05988	0.06282
<u>Schedule MSL-1 (Municipal Street Lighting Service)</u>					
Charge Per KWH, Per Month	0.05856	0.004762	0.06332	0.06658	0.06984
<u>Special Contracts - Flat Rates</u>					
Outdoor Lighting Service, Per Month - Account Number					
2106124001	5.60			5.89	6.18
2106126000	5.60			5.89	6.18
Telephone Booth Service, Per Month - Account Number					
0101109000	3.40			3.58	3.75
0102084000	3.40			3.58	3.75
0103073000	3.40			3.58	3.75
0103116000	3.40			3.58	3.75
250623100	3.40			3.58	3.75

- (1) Present rates and charges per IURC Cause No. 39357, June of 1992
- (2) Represents a 5.15% Phase I across-the-board increase in present rates and charges to become effective immediately upon approval of the IURC.
- (3) Represents a total 10.30% across-the-board increase in present rates and charges (an approximate 4.90% increase over Phase I) to become effective one year after the implementation of the Phase I rates and charges.

(Continued on next page)

(Subject to the comments in the attached
letter dated December 4, 2006 of Umbaugh)

PERU (INDIANA) MUNICIPAL ELECTRIC UTILITY

SCHEDULE OF PRESENT AND PROPOSED RATES AND CHARGES

	Approved 3rd Quarter Tracker	Total	Phase	
	Present (1)		I (2)	II (3)
<u>Special Contracts - Flat Rates (Cont'd)</u>				
Traffic Light Service, Per Month - Account Number				
1001093000	\$12.75		\$13.41	\$14.06
2003200000	12.75		13.41	14.06
2006125000	8.50		8.94	9.38
Other Service, Per Month - Account Number				
NIPSCO	1.70		1.79	1.88
Cardinal Communications	225.92		237.55	249.19

(1) Present rates and charges per IURC Cause No. 39357, June of 1992

(2) Represents a 5.15% Phase I across-the-board increase in present rates and charges to become effective immediately upon approval of the IURC.

(3) Represents a total 10.30% across-the-board increase in present rates and charges (an approximate 4.90% increase over Phase I) to become effective one year after the implementation of the Phase I rates and charges.

(Continued on next page)

(Subject to the comments in the attached
letter dated December 4, 2006 of Umbaugh)

THE UNIVERSITY OF CHICAGO

THE UNIVERSITY OF CHICAGO
CHICAGO, ILLINOIS 60637

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ELECTRIC TRANSMISSION AND DISTRIBUTION DEPARTMENT
2007 Budget
5 - YEAR CAPITAL IMPROVEMENTS SUMMARY

1/29/07 12:58 PM

	Acct	2007	2008	2009	2010	2011
TRANSMISSION STATION EQUIPMENT	853					
69 Kv Breaker Replacement		150,000	100,000	150,000		
Transmission Line Relays				16,000		
TRANSMISSION POLES & FIXTURES	855					
ConAgra Transmission Line *			175,000			
Peru Loop (South Stn - Canal Stn)				365,000		
DISTRIBUTION PLANT, LAND	860					
DIST SUBSTATION EQT	862					
Substation #6			1,200,000			
Canal Street Substation				1,000,000		
Substation Controls Upgrades		40,000		55,000	50,000	
DIST POLE, TOWER, O/H COND	864					
Poles, Sound & Bore		50,000				
Overhead Rebuilds (See detailed list)			501,000	574,000	717,000	416,000
Distribution System Reclosers			30,000	30,000	30,000	
Capacitors				10,000		
Transmission Line Underbuild				150,000		
DIST U/G CONDUIT & CONDUCT	866					
Undergrnd Svc Rebuilds (See detailed list)			204,000	295,000	237,000	244,000
New Residential Svcs		46,000		48,000	50,000	50,000
New Commercial Svcs		51,000		52,000	53,000	55,000
LINE TRANSFORMERS	868					
Transformer		50,000		30,000	25,000	25,000
METER CIP	870					
Meters		28,000		10,000	10,000	10,000
ST LIGHT & SIGNAL SYS	873					
St Lights & Signals		4,000		4,000	4,000	4,000
TRANSPORTATION EQT	892					
Digger Derrick Truck			170,000			
Equipment Trailer					30,000	
Replace Truck #151 (E/TS Supvsr)				28,500		
Standby Truck (New)			35,000			
Bucket Truck (Replacement)				140,000		
COMMUNICATION EQT	897					
Communication Eqt, Fiber Loop		12,000				
FIBER OPTICS	897-1					
Fiber, Cable Trailer			20,000			
Fiber to new Substation #6			24,000			
GENERAL OFFICE AND ENG.						
Electric Rate Increase (Carryover)		50,000				
Administration & Engineering	Misc	128,700	39,600	42,300	21,300	15,300
TOTALS		609,700	2,498,600	2,999,800	1,227,300	819,300

ELECTRIC TRANSMISSION AND DISTRIBUTION DEPARTMENT
2007 Budget
5 - YEAR CAPITAL IMPROVEMENTS SUMMARY

Detail, Underground and Overhead Projects

		2007	2008	2009	2010	2011
UNDERGROUND REBUILDS & EXT:	866					
Golden Hills				74,000		
Flora			63,000	60,000		
Wells			81,000			
Parkview Heights I				161,000		
Parkview Heights II					237,000	
Parkview Heights III						244,000
Willow Creek			60,000			
TOTAL, UNDERGROUND		0	204,000	295,000	237,000	244,000

		2007	2008	2009	2010	2011
OVERHEAD PROJECTS	864					
CIRCUIT 1241 - BUNKER HILL/MIAMI						
SR 218, EAST OF US 31					100,000	
US 31, SOUTH OF 850S				160,000		
CIRCUIT 1235, SR 19S						
SR 19, (250S - 300 S)			57,000			
350S (East of 150E)			36,000			
400S (SR 19, 550E)			262,000	116,000		
250S (East of SR 19)			71,000	46,000		
400S (East of 100E)				79,000		
150E (South of 400S)				23,000		
550S (East of 150E)						68,000
150E (North of SR 218)					39,000	
650S (West of 150E)						
House Lateral (700S-150E)						17,000
SR 19 (500S-775S)					301,000	
395S (North of 400S)						72,000
400E (North of 400S)					41,000	
250E (500S - 600S)					68,000	
550S (West of 250E)					18,000	
250E (600S - SR 218)						64,000
SR 218 (250E - 150E)						45,000
MISC:						
Circle Inn Mobile Home Park			25,000			
CIRCUIT 1251 - GRISSOM AEROPLEX						
Rebuild - Phase I (Six-year project)			50,000			
Rebuild - Phase II				150,000		
Rebuild - Phase III					150,000	
Rebuild - Phase IV						150,000
TOTAL, OVERHEAD PROJECTS		0	501,000	574,000	717,000	416,000

**ELECTRIC POWER PRODUCTION DEPARTMENT
5 - YEAR CAPITAL IMPROVEMENTS SUMMARY
2007 Budget**

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PROJECT	Acct#	2007	2008	2009	2010	2011
UNIT 2						
Instrument & Controls Upgrades	812	15,000	20,000	25,000	15,000	30,000
Ductwk Expansion Joint Rebuild	812	15,000				
ID Fan and Motor Work	812	18,000				
Stack Work	812	85,000				
Turbine Lube Oil Filter System	814	9,000				
Secondary Superheat Tube Work	812	18,000				250,000
Coal Pulverizer Mills Rebuild	812		35,000			
Boiler Burner Work	812		25,000	30,000		
Precipitator Control Cabinet Upgrd	812			40,000		45,000
Coal Feeders	812					30,000
Bucket Elevator	812		20,000		55,000	
Boiler Performance Work	812	15,000	90,000	30,000	45,000	
UNIT 3						
Instruments & Controls Upgrades	812	10,000	10,000	15,000	15,000	
Stack Work	812					
Coal Mill Rebuild	812	35,000				
Controls Replacement	812		80,000			
Turbine-Generator Governor Cntrl	814		80,000			
Turbine Project	814	240,000				
Boiler Furnace Refractory	812	18,000				
COMMON EQUIPMENT						
Cooling Water, River Inlet	812	10,000		90,000		100,000
Coal Handling Modifications	812	60,000	150,000	100,000	110,000	60,000
Combine Control Centers, Engineering	812	15,000	155,000			
Ash Conveying Equipment Automation	812		28,000			
Control Room Systems Upgrade	812			30,000	30,000	
High Pressure Steam Valve Replacement	812				35,000	
Safety & Plant Improvement	812	16,000	55,000	35,000	30,000	50,000
316b River Environmental Project	812					
Boiler MACT (Max Achiev Cntrl Tech) Proj	812	15,000				
Truck	892		33,000			
Boiler Insulation (Incl Asbestos Abatement)		70,000	125,000	84,000	40,000	20,000
TOTALS						
		664,000	906,000	479,000	375,000	585,000

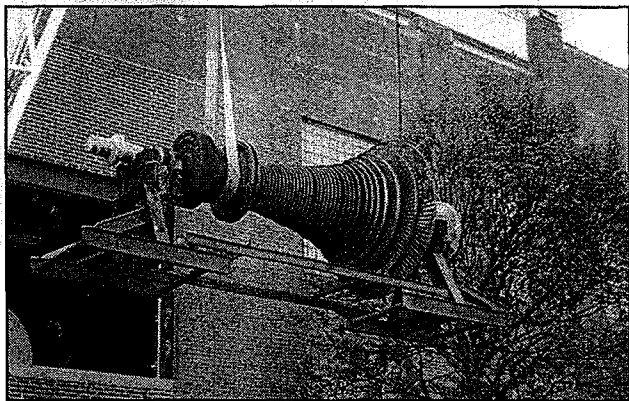
PERU **NEWS** **UTILITIES** CONNECTION

A Quarterly Publication of Peru Utilities
Second Quarter 2004

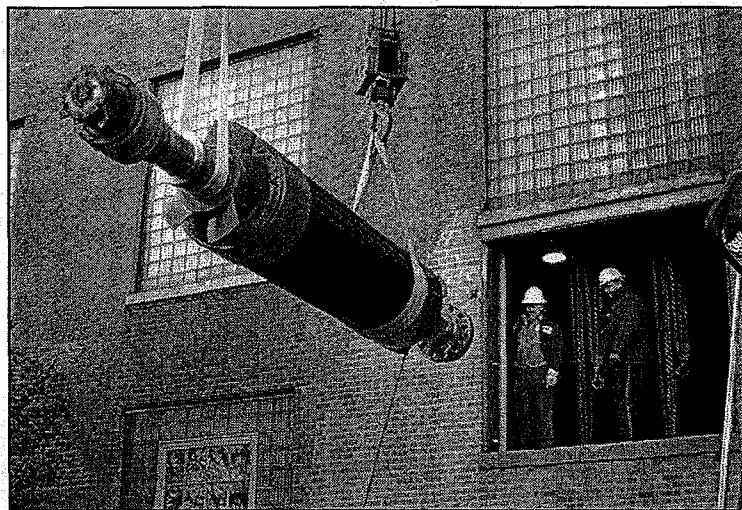
Peru Utilities Generating Station Completes Major Overhaul

Major refurbishment work was recently completed on Generating Unit Number 2 at the Peru Utilities Electric Generating Station. Unit 2 is the largest of the two coal-fired generating units at Peru Station with an output of 22,000 kW. The work was divided into two areas, one being the turbine-generator and the other being the boiler and associated auxiliary equipment.

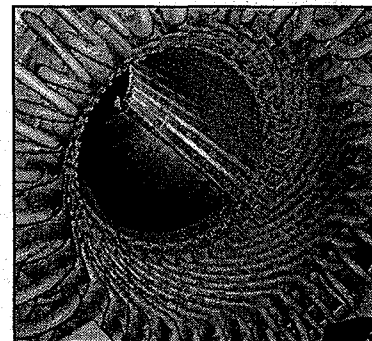
The turbine rotor assembly and associated stationary blades were removed and shipped to a repair facility near St. Louis. Two rows of blades on the rotor were replaced as were two rows of stationary blading. In addition new main bearings were fabricated and the main lubrication oil pump was replaced. The generator rotor assembly was removed and shipped to a repair shop in Milwaukee where new retaining rings were machined and installed. The unit was also thoroughly examined for electrical and mechanical integrity.



The turbine rotor assembly being removed from the power plant.



A crane is used to remove the generator rotor assembly being removed from the power plant.



Generator stator showing windings.

Major areas of work on Unit 2 boiler included the overhaul of both coal pulverizers, relief valve replacement, replacement of

one feedwater pump motor, repair of air dampers, repair of boiler drum doors, refurbishment of boiler hand holes, inspection and cleaning of high-voltage switch gear, boiler control replacement and asbestos abatement.

The majority of the work was performed by Peru Utilities staff with assistance from Turbine Generator Maintenance, Inc.

(See "Overhaul," Page 3.)

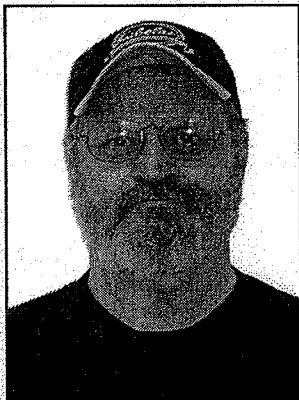
Peru Utilities Welcomes New Employees ...

And wishes long-time employees well in their retirement



Hilgeman

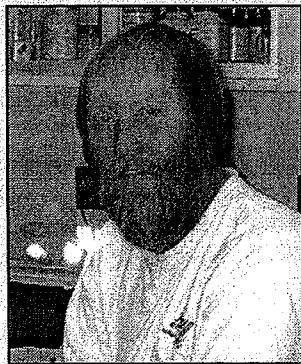
Janet (Susie) Hilgeman retired in January, 2004 after 33 years of service with Peru Utilities. Ms. Hilgeman spent all of her career in the customer service department, the last 20 years as a cashier.



See

Ron See bade Peru Utilities farewell in January, 2004 after 32 years of service. Ron worked his entire career in the Electric Division's Transmission and Distribution Department. He had been a Line Truck Foreman since 1996.

Ron Flitcraft has been named Laboratory Assistant at the Peru Wastewater Treatment Plant. Mr. Flitcraft assumed his duties in April, 2003. His responsibilities include collecting water samples and performing tests to ensure compliance with state and federal



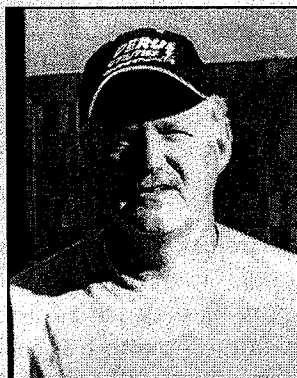
Flitcraft

wastewater regulations, maintaining proper test records and repairing and maintaining laboratory equipment. Ron had worked as a part time Laboratory Assistant for Peru Utilities since 1996.

Ryan Fogelsong recently joined Peru Utilities as an Apprentice Power Plant Technician. Mr. Fogelsong started in December, 2003. The Peru Utilities Power Plant Technician Apprenticeship Program consists of 8,000 hours of instruction that includes class room study as well as on-the-job training.



Fogelsong



Moore

Bob Moore joined Peru Utilities in June, 2003 as Part Time Maintenance Worker. Bob's responsibilities include maintenance and cleaning of the Peru Utilities Office Complex.

Mechele Rose joined Peru Utilities as Part Time Laboratory Assistant at the Peru Wastewater Treatment Plant. Ms. Rose's duties include collecting and testing water samples, maintenance of records and maintenance and repair of laboratory equipment. Mechele assumed her responsibilities with Peru Utilities in September, 2003.



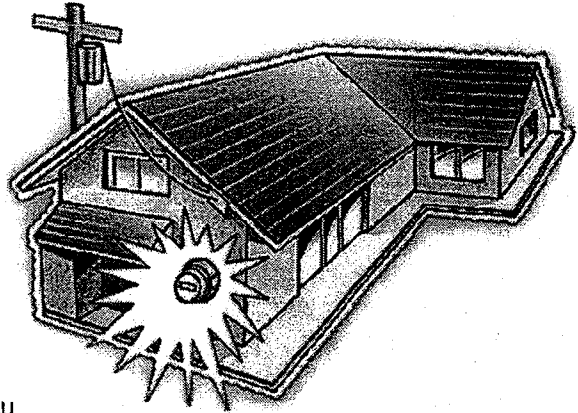
Rose

Don't Let Lightning Strike First

Peru Utilities Surge Protection Program

Surge Protection for \$6.50/month
(minimum 24 month contract required)

Have you ever been struck by lightning? Probably not, but if you've ever repaired an appliance following a severe storm, you may have been a victim of a lightning strike. Peru Utilities is now offering the Surge Protection Program. Protect your home appliances and electronics with a meter based surge arrester from Peru Utilities. Stop the surge before it enters your home. Don't let lightning strike first.

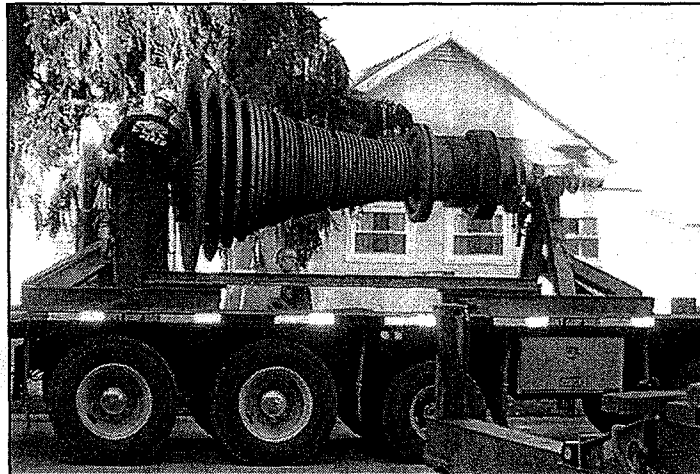


To learn more about the Peru Utilities Surge Protection Program you can contact one of our customer service representatives at 765/473-6681 or visit us on-line at www.peruutilities.com.

Overhaul *(Continued from page 1)*

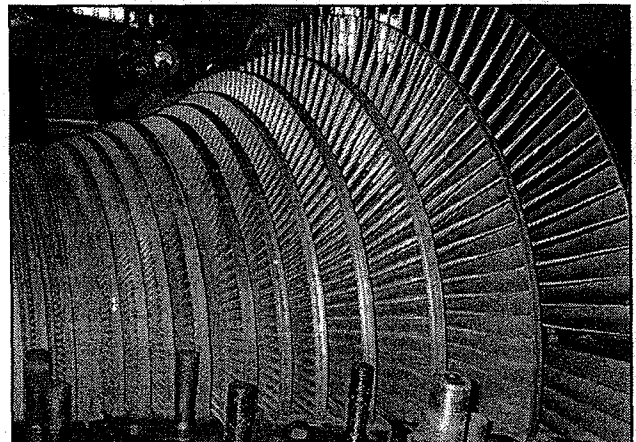
Unit 2 went into commercial service in 1957. The unit was last overhauled in 1987. This most recent outage began on November 1, 2003. The unit was returned to service on December 22, 2003.

Total cost associated with the outage was nearly \$1.3 million and was financed with Electric Division Capital Improvements Reserves. These expenditures will be reimbursed to Peru Utilities by the Indiana Municipal Power Agency (IMPA) over the next 10 years through monthly Capacity Payments. These payments are taken as a credit against the Peru Utilities' wholesale power bill from IMPA thereby reducing the cost of electricity to our customers.



The turbine rotor assembly is secured for transportation to the repair shop.

Turbine rotor installed in housing.



Have You Heard About Direct Debit?

There is no way around it. You have to pay your utility bill each month.

Why not make it easy on yourself and let us direct debit your checking account?

It saves you time and money; and it's easy!

Your bill will be mailed to you just as before, but it will include a comment line, "DRAFT – DO NOT PAY." We will debit your checking account 15 days after the bill date. You have until the due date to review your utility bill and contact us if you feel the charges are incorrect before we debit your account.

To learn more about paying your utility bill the easy way contact one of our customer service representatives by phone or go to our website and enter the "Customer Services" section.



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We Need Your Help

Peru Utilities is looking for sites to dispose of multiple loads only of tree chips. Please contact Jeff Plochow, ext. 135

NEWS CONNECTION

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Have questions you'd like to ask about subjects that appeared in this issue? Please call **Brenda**

Hobbs, Peru Utilities, at

765-473-6681.

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PERU NEWS

UTILITIES CONNECTION

A Quarterly Publication of Peru Utilities
Third Quarter 2004

Wastewater System Upgrades Underway

Work on the long-awaited improvements to the community's wastewater collection and treatment facilities started in February of 2004 and is progressing at a rapid pace. The \$18.6 million project was necessitated by demands from the Indiana Department of Environmental Management that Peru reduce discharges of untreated sewage into the Wabash River during periods of heavy rainfall.

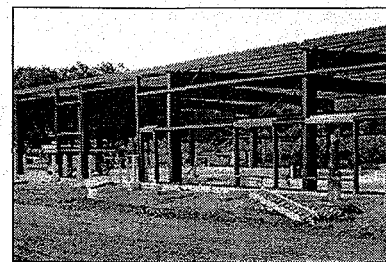
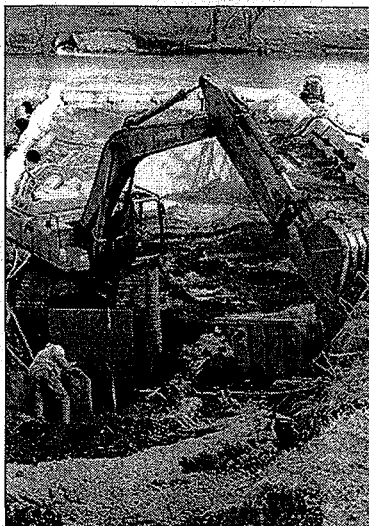
Nearly all of Peru's sewer collection system consists of combined storm and sanitary sewers. Because of this, large amounts of water are collected during rain events which quickly overloads the existing West River Road Wastewater Treatment Facility. Excess water that is collected is then diverted to the Wabash River through special outlets called Combined Sewer Overflows or CSO's. This water contains sanitary sewage along with rain water. A detailed study of this problem was undertaken in late 1998.

It was determined that increasing treatment plant capacity to accept and treat significantly more storm water flow was the most cost effective approach to reducing the amount of untreated sewage discharged through the CSO's.

The project consists of several separate yet related areas of work. The most extensive efforts will take place at the wastewater treatment plant itself. Work to be performed there will include new headworks and grit removal equipment, new secondary clarifiers, and the complete renovation of existing anaerobic digesters. In the interests of safety new ultraviolet disinfection equipment will replace the chlorine currently



A 24-inch force main is installed on West Canal Street.



At left, a 24-inch force main is installed under the Wabash River. Framing for a new garage is seen above.

(See "System Upgrades..." Page 2.)

Peru Utilities Employees Recognized for Academic Achievement

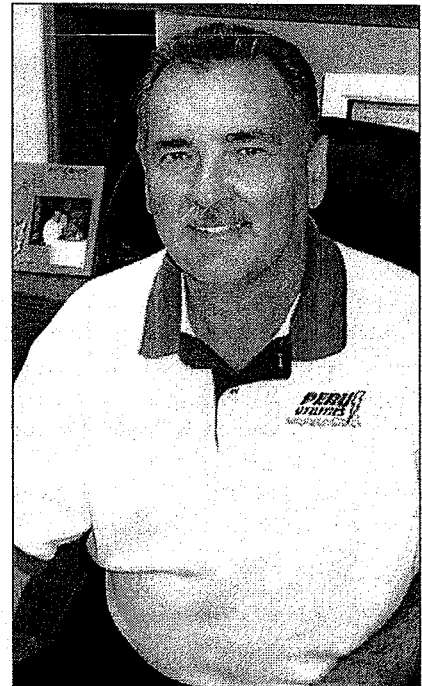
Peru Utilities provides financial assistance to employees who seek to improve their knowledge and abilities through higher learning. Peru Utilities would like to recognize the most recent recipients of college degrees earned with the help of the Peru Utilities Education Assistance Program.

Joyce Clark earned a Bachelor of Science degree in Business Information Systems from Indiana Wesleyan. Joyce is a Commercial Bookkeeper in the Administrative Department. She has worked for Peru Utilities since December, 1999.

Gary Jackson earned a Masters degree in Business Administration from Indiana Wesleyan. Gary is the Electric Transmission and Distribution Superintendent. Gary has worked for Peru Utilities since May, 1999.

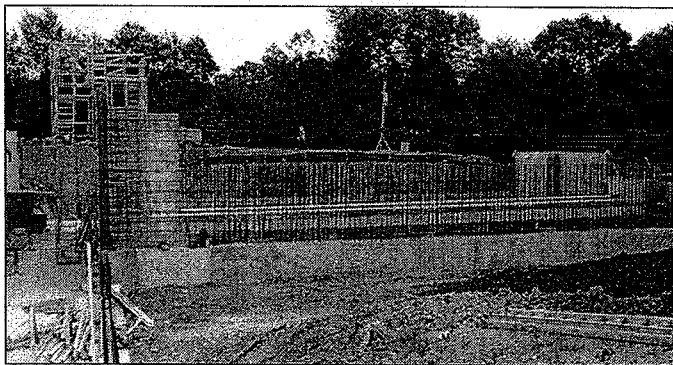


Clark



Jackson

System Upgrades *(Continued from page 1)*



Foundation For Vertical Loop Reactor.

being used. In addition a relatively new technology is being utilized to provide the primary treatment process. Called Vertical Loop Reactors these devices were chosen for their decreased space requirement and ability to rapidly respond to changes in flow into the plant. When completed the wastewater treatment plant will have the ability to treat flows up to 26 million gallons per day (MGD). The current facility is limited to 6 million gallons per day.

Another area that will get considerable attention are the 13 sewer pumping stations located throughout the community. Two of these, Cass Street Pumping Station and Southwest Pump Station located on West Riverside Drive, will be completely renovated. The Cass Street Station pumping capacity will be increased from 4 MGD to 19.4 MGD along with new electrical and control equipment. To carry the additional flow from the Cass Street Station a new 24" force main will be installed from the Cass Street Station under the Wabash River to the wastewater treatment plant. The Southwest Pump Station will also see larger pumps, new electrical and control equipment as well as a new 12" force main that will replace a 6" force main currently being utilized to convey water to the wastewater treatment plant from the west end of the community. The remaining pumping stations will receive electrical and control equipment upgrades.

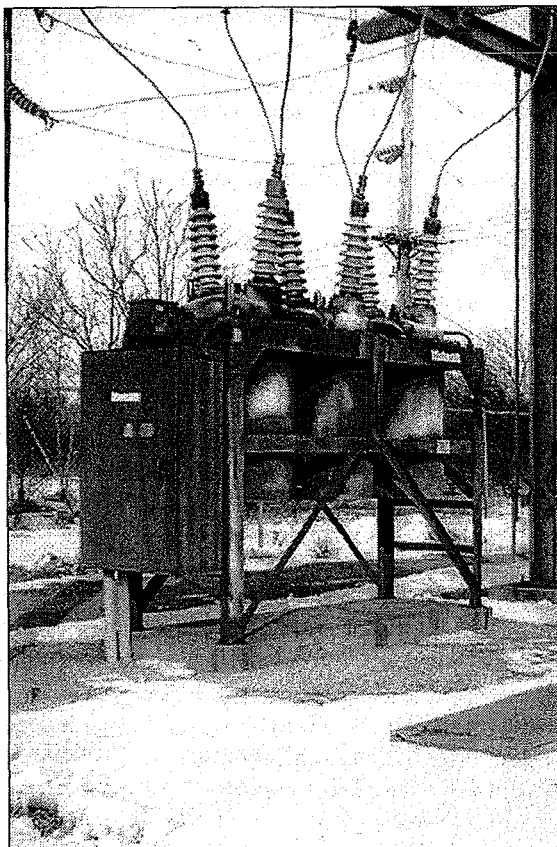
Funding for the project was provided through a 20 year, 2.9% interest loan from the State of Indiana Revolving Loan Fund.

Electric Division Undertakes Substation Improvements to Enhance Reliability

The Peru Utilities Electric Transmission and Distribution Department recently took delivery of two new 69,000-volt circuit breakers for use in the Electric Division's Substation 2, located on Blair Pike.

The new breakers use state-of-the-art technology for interrupting current flows. They are replacing 1970's vintage equipment that was becoming increasingly more difficult to maintain due to the unavailability of spare parts.

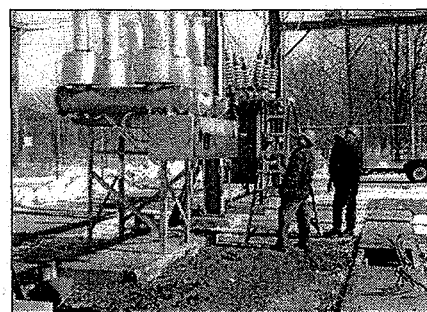
Over the next four years all 12 of the older 69,000-volt circuit breakers in the Electric Division's transmission system will be replaced with units featuring the newer technology.



Original 69 kV circuit breaker.



The new SF6, 69kV circuit breaker is brought into position.



The new SF6 breaker receives its wiring.

Peru Utilities Welcomes New Employee



Donaldson

Peru Utilities is pleased to introduce **Paul Donaldson** as the new Foreman at the Grissom Aeroplex Operations. Paul comes to Peru Utilities from Foresight Engineering of Indianapolis where he served as Construction Manager. Paul holds a Bachelors Degree in Business Science from Indiana University. Paul will have the responsibility for the day-to-day operations of the water and wastewater facilities located at the Grissom Aeroplex.

Notice to Our Customers

Starting with bills rendered on August 6, 2004, Peru Utilities customers residing inside of the corporation limits of the City of Peru will see an additional charge for storm water management. Please be advised that this is not a Peru Utilities charge. The fee is being levied under the authority of the Peru Storm Water Management Board. Peru Utilities is acting as the billing and collecting agency for the Storm Water Management Board. Questions regarding any aspect of the storm water charge should be directed to Peru City Hall at 472-2400.

A Message From the General Manager

By Roger Merriman, General Manager, Peru Utilities

As you can probably tell from the articles in this quarter's News Connection, we are managing to keep ourselves fairly busy. I am most gratified that the improvements to our wastewater collection and treatment system have finally started. It has been a very long and arduous process but when the project is completed our community will have a state of the art facility that will allow us to be good stewards of the environment while meeting our economic development and growth needs for the next 20 years or more. Obviously an undertaking of this magnitude is not without cost. The unfortunate consequence is that wastewater rates were increased rather substantially to allow for the repayment of the debt that was incurred to finance the project. To their credit, our customers understood the necessity of the project and accepted the increased fees graciously if not entirely happily. My thanks to all of our wastewater customers for your support of this project.

I am also pleased that we are moving forward with improvements to our electrical transmission system. The circuit breaker replacement project will do much to improve substation reliability. The equipment being replaced has proven to be less reliable than we would expect. Part of the problem is that it utilizes oil to quench the electrical arc during breaker operation, a technology that is at least 50 years old. This combined with the fact that there are many moving parts results in fairly high maintenance requirements. The problem is compounded by the fact that spare parts are becoming increasingly more difficult to find. The new circuit breakers utilize an inert gas, Sulfur Hexafluoride, more commonly known as SF6 to us non-chemists, to break the electrical arc. Circuit breakers utilizing SF6 require far fewer moving parts thereby greatly reducing the maintenance requirements while improving reliability. Eventually we plan to spend about \$530,000 replacing all of the old circuit breakers on the transmission system.

There are other exciting projects that are either currently underway or are in the planning stages. We will tell you more about these projects in future additions of the Peru Utilities News Connections. Stay tuned!

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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF)
THE CITY OF PERU UTILITIES ELECTRIC) CAUSE NO. 43200
DEPARTMENT FOR APPROVAL OF A)
NEW SCHEDULE OF RATES AND CHARGES)

VERIFIED DIRECT TESTIMONY

of

SCOTT A. MILLER, C.P.A.

February 1, 2007

On Behalf of Petitioner
City of Peru Utilities Electric Department

Petitioner's Exhibit SAM-1

1 **Q. Please state your name and business address.**

2 A. My name is Scott A. Miller and my business address is 8365 Keystone Crossing, Suite 300,
3 Indianapolis, Indiana, 46240.
4

5 **Q. What is your profession and for whom are you employed.**

6 A. I am a Certified Public Accountant and a principal in the firm of H.J. Umbaugh &
7 Associates, Certified Public Accountants, LLP ("Umbaugh").
8

9 **Q. Can you describe your firm and its area of expertise?**

10 A. Umbaugh is a firm of Certified Public Accountants practicing exclusively as independent
11 financial advisors and utility consultants. The firm, in existence for over fifty (50) years, is a
12 regional CPA firm with offices in Indianapolis and Plymouth, Indiana and Lansing,
13 Michigan. Our firm has concentrated its practice in providing financial advisory services to
14 various governmental entities and not-for-profit utilities within the State of Indiana. A large
15 part of our practice involves accounting studies in connection with changes in utility rates
16 and financial planning for the issuance of tax-exempt bonds and other evidences of
17 indebtedness.
18

19 **Q. What is your educational experience?**

20 A. In June 1995, I received a Bachelor of Science Degree in Business, with a concentration in
21 Accounting, from the Kelly School of Business at Indiana University in Bloomington,

1 Indiana. Since then, I have completed numerous professional courses sponsored by the
2 American Institute of Certified Public Accountants, the Indiana CPA Society and other
3 professional organizations.
4

5 **Q. What has been your experience professionally?**

6 A. I joined the firm of Umbaugh in June 1995 and, in 1998, completed the requirements to
7 become licensed as a Certified Public Accountant in the State of Indiana. In July 2005, I
8 became a principal in the firm. During the past eleven years with Umbaugh, I have been
9 involved with many professional engagements including financial studies for
10 municipally-owned water, electric, gas and sewage utilities, not-for-profit and for-profit
11 water corporations, water authorities, regional water and sewer districts and conservancy
12 districts. These studies quite often have involved utility rate matters, the determination of
13 utility revenue requirements, cost of service studies and the financial planning associated
14 with the issuance of tax-exempt bonds and other forms of indebtedness. I have given
15 speeches and participated in panels and workshops concerning utility rates, financing and
16 project development before the Indiana Rural Water Association, the Alliance of Indiana
17 Rural Water, the Indiana Sewer Company Association, the Indiana Association of Cities and
18 Towns, and the Indiana Section of the American Water Works Association.
19

20 **Q. What professional organizations are you associated with?**

21 A. I am a member of the American Institute of Certified Public Accountants, the Indiana CPA

1 Society, the Indiana Water Environment Association and the Indiana Section of the American
2 Waterworks Association and our firm is a member of both the Indiana Rural Water
3 Association and the Alliance of Indiana Rural Water. In addition, our firm is the financial
4 advisor to the Indiana Association of Cities and Towns. In this capacity, we provide
5 guidance on financial matters that affect communities across the State.
6

7 **Q. Have you testified before as an expert witness?**

8 A. Yes, I have previously testified before the Indiana Utility Regulatory Commission.
9

10 **Q. Was your firm retained by the City of Peru in connection with these proceedings?**

11 A. Yes.
12

13 **Q. Would you briefly describe the purposes for which you were retained and the nature
14 and scope of the services which you were to provide?**

15 A. Our firm was retained to assist management with the compilation of the possible future
16 financial requirements of Petitioner and to make recommendations regarding changes in
17 Petitioner's present schedule of rates and charges for service.
18

19 **Q. Have the results of those studies been summarized in a written report?**

20 A. Yes. We have prepared an Accounting Report dated February 1, 2007 that summarizes the
21 results of our studies in regard to obtaining approval from the IURC for the proposed

1 increases in electric rates and charges.

2 **Q. Please identify Petitioner's Exhibit SAM-2.**

3 A. Exhibit SAM-2 is a copy of our Accounting Report summarizing the results of the
4 accounting services performed for Petitioner.

5
6 **Q. Was the report prepared by you or under your supervision?**

7 A. Yes, it was.
8

9 **Q. Please explain how the Accounting Report is organized.**

10 A. The report is divided into four sections. The first section of the report is the accountant's
11 letter which describes that the type of accounting service provided was a compilation and that
12 the resulting accounting report is a special purpose report for submission to the Indiana
13 Utility Regulatory Commission and is restricted to that purpose only. This letter is
14 incorporated by reference on all the pages of the accounting report.
15

16 The second section of the report (pages 2 to 3), sets forth the general comments which help
17 to explain and describe certain assumptions made, and resulting findings derived from the
18 various referenced schedules.

1 The third section of the report (pages 4 to 20) contains pro forma financial information for
2 the 12 months ended March 31, 2006, which was the test year used to develop the proposed
3 rates and charges. Page 4 shows an analysis of test year purchased power expense. Pages 5
4 through 13 set forth the various calculations of the Utility's pro forma cash operating
5 expenses. Page 14 presents pro forma tracker revenues for metered KWH sales. Pages 15
6 through 16 summarize the pro forma annual revenue requirements and annual operating
7 revenues included in this cause. Page 17 shows the calculation of the pro forma return on
8 utility plant in service. Finally, pages 18 through 20 show a comparison of the Utility's
9 present rates and the rates proposed in this Cause.

10
11 The fourth section of the report (pages 21 through 29) contains additional unaudited financial
12 information regarding the test year and comparative financial information for the three
13 preceding calendar years, 2003, 2004, and 2005, and the twelve months ended March 31,
14 2006. In addition, we have provided a schedule comparing the Utility's cash and investment
15 account balances at March 31, 2006 with suggested industry guidelines.

16
17 Returning to the pro forma calculations, page 4 shows a detailed analysis of the Utility's
18 largest expense, purchased power. Also shown on this schedule are the capacity payments
19 that Peru receives for generating power for the Indiana Municipal Power Agency ("TMPA").
20 These capacity payments are received in the form a credit on the Utility's monthly power bill.
21 Pages 5 through 13 of the report show the test year cash operating expenses, including taxes,

1 and the adjustments which have been made to arrive at the pro forma annual cash operating
2 expenses. Each of the adjustments is explained in detail on pages 7 through 13 of the report.

3 Adjustments have been made to reflect current price levels for purchased power, salaries and
4 wages, employee benefits, utility rate case expense, taxes, periodic pole testing, publications
5 and insurance. In addition, adjustments have been made to eliminate capital and non-
6 recurring items. Page 14 shows the calculation of pro forma additional tracking factor
7 revenues assuming the roll in of the Utility's 3rd quarter 2006 IMPA tracking factor. Pages
8 15 and 16 summarize the pro forma annual revenue requirements and the pro forma annual
9 revenues required by the Utility. The pro forma revenue requirements include \$15,723,630
10 of cash operating expenses as calculated on pages 5 through 13. A return on utility plant in
11 service of \$960,000 as calculated on page 17. Finally, an allowance for replacements,
12 improvements and extensions to plant has been included in the amount of \$1,466,484, which
13 represents calculated pro forma depreciation expense as shown on page 29. This results in
14 total revenue requirements of \$18,150,114. When compared to test year operating and non-
15 operating revenues of \$16,511,102, a shortfall of \$1,668,825 exists, which includes \$29,813
16 for additional utility receipts tax. This results in an across-the-board increase in present rates
17 and charges of 10.3 percent. Page 17 shows the calculation of the pro forma return on utility
18 plant in service. Pages 18 through 20 compare the Utility's present rates and charges with
19 those proposed in this cause. This schedule also shows the phase-in of the proposed rates
20 and charges.
21

1 **Q. Please explain the adjustment to payroll expense.**

2 A. The adjustment for pro forma salaries and wages expense reflects the 2007 pay rates for
3 union employees authorized in the existing Declaration of Policy of Employment Practices
4 Covering the Peru Utilities of Peru, Indiana. This agreement between the Peru Utilities
5 Service Board and the AFSCME – Local 1030 is in effect until December 31, 2007. Salaries
6 and wages for non-union employees have been normalized at approved 2006 pay rates. In
7 addition, adjustments were made to normalize for the anticipated hours that each employee
8 will work and to reflect management's intent to fill four positions open at the end of the test
9 year. These adjustments result in an increase in payroll expense of \$272,492 over test year
10 levels.

11
12 **Q. Please explain the purchased power adjustment.**

13 A. Test year purchased power expense has been adjusted to reflect the elimination of the
14 demand and energy charges associated with an industrial customer that is no longer on the
15 Peru system. In addition, test year expense was adjusted to reflect the second quarter 2006
16 tracking factor charged by IMPA. Finally, an adjustment was made to reflect corrections
17 outside of the test year to the capacity payments Petitioner receives from IMPA. In total, the
18 adjustments amount to an increase in test year purchased power expense of \$777,180.

19
20 **Q. Please explain the adjustment for period pole testing.**

21 A. Utility management believes that it is prudent to implement a pole testing program to ensure

1 uninterrupted reliable service. Management estimates the cost of this program to be \$50,000
2 for the Utility's entire inventory of poles and recommends conducting the testing over a five-
3 year period.

4
5 **Q. Please explain the adjustment to employee benefits expense.**

6 A. Adjustments 4, 5 and 6 on pages 9 through 11 of the accounting report reflect the current
7 premium levels for health, life, dental and vision insurance. In addition, the adjustments
8 provide for the pro forma level of clothing allowance expense based on the number of
9 eligible employees. Finally, the adjustments provide for the 2007 PERF rate as well as pro
10 forma FICA expense based on the pro forma payroll calculations.

11
12 **Q. Please explain the rate case expense adjustment.**

13 A. Test year operating expenses were adjusted to reflect a ten-year amortization of the rate
14 case expenses associated with this proceeding over the ten-year anticipated life of the
15 rates.

16
17 **Q. Please explain the reduction in operating expenses for non-recurring or capital**
18 **items.**

19 A. Seven Thousand One Hundred Sixty-Nine Dollars (\$7,169) in test year operating expenses
20 were removed as non-recurring. That amount reflects the purchase of emergency equipment
21 during the test year. An additional Two Thousand Two Hundred Sixty-Three Dollars

1 (\$2,263) in test year operating expenses were removed as well. This reflects legal services
2 associated with negotiating a new pole attachment agreement.

3
4 **Q. Please explain the adjustment to insurance expense.**

5 A. Adjustment 9 on page 12 reflects the current premium levels for Petitioner's various
6 insurance policies. The adjustment results in a net decrease in pro forma expense of \$7,384.

7
8 **Q. Please explain the adjustment to payment in lieu of property taxes.**

9 A. Peru Utilities makes payments in lieu of property taxes to the civil City of Peru. Adjustment
10 10 on page 12 reflects the value of Petitioner's utility plant in service at the end of the test
11 year less the accumulated depreciation for the same time period resulting in net utility plant
12 of \$16,841,264. The Utility does not maintain a fixed asset inventory for plant inside and
13 outside the corporate limits. Management, however, estimates that approximately 20% of the
14 utility plant in service is outside the corporate limits and thus not subject to the corporate tax
15 rate. This results in \$13,473,011 of estimated plant value subject to tax. The result of using
16 the 2005 payable 2006 tax rate is a payment in lieu of property taxes of \$230,495.

17
18 **Q. Please explain the adjustment for newsletter expense.**

19 A. Petitioner's management intends to prepare periodic newsletters for distribution to customers
20 updating them on important information related to their utility service. The annual estimate
21 for this expense is \$20,000 and has been allocated to each utility based on customer count.

1 As such, 47% or \$9,400 has been allocated to the electric utility.

2
3 **Q. Please explain the adjustment for Indiana Utility Receipts Tax.**

4 A. Test year Utility Receipts Tax has been normalized to reflect the elimination of revenue from
5 the former industrial customer.

6
7 **Q. Please explain the adjustment made to test year tracking factor revenues.**

8 A. Page 14 calculates pro forma tracker revenues based upon the Utility's third quarter of
9 2006 IMPA tracker. Tracker revenues have also been adjusted for the elimination of
10 kilowatt hours sold to the former industrial customer.

11
12 **Q. Is it your belief that the adjustments to test year expenses and revenues contained in**
13 **your report are fixed, known and measurable?**

14 A. Yes, it is.

15
16 **Q. Does this conclude your explanation of the report?**

17 A. Yes, it does.

18
19 **Q. Is it your opinion that the proposed level of revenues shown in your report is**
20 **reasonable and necessary to meet the pro forma revenue requirements of the utility?**

21 A. Yes, it is my opinion that it is.

1

2 **Q. Do you have an opinion as to whether the proposed net operating income of \$827,330 is**
3 **a reasonable return?**

4 A. Yes. In my opinion a 5% return on plant (or a net operating income from rates and charges
5 of \$827,330) is a reasonable return and consistent with the percentage level of returns on
6 plant approved by the Commission in other municipal utility rate cases. The resulting annual
7 operating revenue requirement produced by the proposed rates and charges is the minimum
8 amount necessary for the utility to meet its legal and necessary obligations in order to
9 continue to provide adequate and reliable electric service.

10

11 **Q. Do you believe implementing the proposed rates and charges in two phases is**
12 **reasonable under the circumstances?**

13 A. Yes I do. Implementing the proposed increase in rates and charges in two phases will
14 mitigate the impact to customers and allow them more time to adjust their personal budgets.
15 This strategy addresses the concerns raised by the Common Council, Utility Service Board
16 and rate-payers at the two public hearings Mr. Merriman referenced in his testimony. The
17 effect of the phased-in implementation on the Utility will be to delay the time frame of
18 Petitioner's capital improvement budget. Management believes that this can be
19 accomplished without negatively impacting the quality and reliability of service to
20 customers.

21

1 **Q. In your opinion, are the proposed rates and charges non-discriminatory, reasonable**
2 **and just?**

3 **A. In my opinion they are.**
4

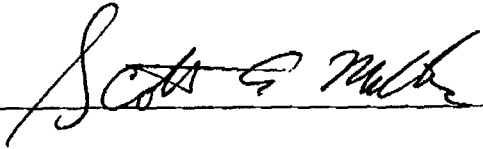
5 **Q. Does this conclude your direct testimony?**

6 **A. Yes, it does.**

AFFIRMATION

I affirm under the penalties for perjury that the foregoing testimony is true to the best of my knowledge, information, and belief.

Signed: _____

A handwritten signature in dark ink, appearing to read "Scott A. Miller", is written over a horizontal line.

Printed: _____

Scott A. Miller

IURC Cause No. 43200

***City of Peru
Municipal Electric Utility***

***Accounting Report On
Study of Electric Utility
Rates and Charges***

February 1, 2007

***Umbaugh
Certified Public Accountants
Indianapolis, Indiana***

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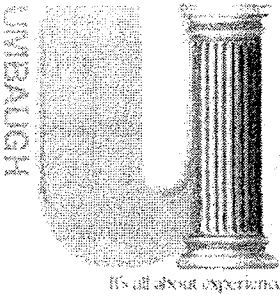
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P.O. Box 49458
Indianapolis, IN 46240-0458
Phone: 317-459-1500
Fax: 317-459-1550
Website: www.hju.com

February 1, 2007


Utility Service Board
City of Peru
335 East Canal Street
P.O. Box 67
Peru, IN 46970-0067

In connection with the proposed increase in the Electric Utility's schedule of rates and charges, we have, at your request, compiled this special purpose report for submission to the Indiana Utility Regulatory Commission.

This report has been compiled for the purpose of requesting approval for a new schedule of electric rates and charges from the Indiana Utility Regulatory Commission and should not be used for any other purpose.

This pro forma financial information is prepared for the purpose of showing the estimated financial effects on the utility's revenue and revenue requirements of an increase in rates and charges for service and other changes that may be reasonably fixed, known or measured, excluding provisions for future inflation. The actual results achieved may vary from the pro forma information and the variations may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The summarized historical financial statements for the twelve months ended December 31, 2003, 2004, 2005 and for the twelve months ended March 31, 2006, and supplemental data, were taken from the Electric Utility's internal statements. They are presented as supplemental data and are not intended to constitute an adequate presentation of the financial position, the results of operations nor cash flows in accordance with generally accepted accounting principles. They have not been audited or reviewed by us, therefore, we do not express an opinion or any other form of assurance thereon.



PERU (INDIANA) MUNICIPAL ELECTRIC UTILITY

GENERAL COMMENTS

The City of Peru, located in Miami County, Indiana, owns and operates an electric utility and furnishes retail electric service to the residents of the City and the surrounding area.

In order to provide sufficient revenues for the anticipated costs of operation and maintenance including taxes, and to provide a reasonable return on utility plant in service, and to provide for replacements and improvements to utility plant, the Utility Service Board and the Common Council of the City of Peru propose to increase electric rates, subject to the approval of the Indiana Utility Regulatory Commission.

PRO FORMA INFORMATION

Test Year Analysis of Purchased Power Expense – Page 4

This schedule analyzes the Utility's test year power expense and capacity payments to the Indiana Municipal Power Agency ("IMPA").

Pro Forma Annual Cash Operating Expenses – Pages 5 – 13

The recorded cash operating expenses for the twelve months ended March 31, 2006 (the "Test Year") have been adjusted for fixed, known and measurable changes as explained on pages 5 through 13 to arrive at the pro forma annual cash operating expenses. The adjustments exclude a provision for future inflation.

Calculation of Pro Forma Tracking Factor Revenues – Page – 14

This schedule calculates pro forma additional tracking factor revenues based upon the addition of the 2006 third quarter IMPA tracking factor to the Utility's existing rates and charges.

Pro Forma Annual Revenue Requirements and Annual Revenues – Pages 15 – 16

The recorded cash operating expenses for the twelve months March 31, 2006, have been adjusted for fixed, known and measurable changes as explained on pages 5 through 13 to arrive at the pro forma annual cash operating expenses. A return on utility plant in service is also included with the calculation shown on page 17. The allowance for replacements and improvements is based upon calculated depreciation expense, shown on page 29.

Test year annual operating revenues have been adjusted for the loss of an industrial customer, and pro forma tracker revenues as shown on page 14.

The pro forma deficiency of revenues as compared to pro forma revenue requirements amounts to approximately \$1,668,825 which results in a 10.30% calculated increase in present rates. In order to mitigate the impact of the rate increase to its customers the utility is requesting to phase the increase in over a two-year period.

(Continued on next page)

PERU (INDIANA) MUNICIPAL ELECTRIC UTILITY

(Cont'd)

GENERAL COMMENTS

Calculation of Return on Utility Plant in Service – Page 17

This schedule shows the return on utility plant calculation with a 5% return, which equates to \$827,330 excluding test year interest income.

Schedule of Present and Proposed Rates and Charges – Pages 18 - 20

This schedule compares the Utility's existing rates and charges with proposed rates and charges calculated by adding the third quarter 2006 IMPA tracking factor to the existing rates and charges and applying a 10.30% across-the-board rate increase to be phased in over a two-year period.

PERU (INDIANA) MUNICIPAL ELECTRIC UTILITY
Peru, Indiana

PRO FORMA FINANCIAL INFORMATION

PERU (INDIANA) MUNICIPAL ELECTRIC UTILITY

TEST YEAR ANALYSIS OF PURCHASED POWER EXPENSE

(Based on the twelve months ended March 31, 2006)

(Unaudited)

Source: City of Peru Invoices

Month Expensed	KW	Demand Charges				Energy Charges				Reactive Demand Charge		Switching Credits	Total Bill	Capacity Payment	Net Total Bill
		Production	Transmission	Delivery Voltage Charge	ECA Demand Charge	KWH	Production	Transmission	ECA Energy Charge	KVAR	Charge				
April, 2005	37,689	\$446,313.14	\$75,792.58	\$23,442.56	\$19,447.52	19,997,811	\$315,405.48	\$11,778.71	(\$43,235.27)	3,925	\$4,710.00	(\$36.00)	\$853,618.72	(\$534,299.20) (1)	\$319,319.52
May	40,786	482,987.81	82,020.65	25,368.89	21,045.58	20,266,595	319,644.74	11,937.02	(43,816.38)	1,900	2,280.00	(36.00)	901,432.31	(276,826.05)	624,606.26
June	53,292	631,083.86	107,170.21	33,147.62	27,498.67	25,353,255	399,871.54	14,933.07	(54,813.74)			(240.00)	1,158,651.23	(335,698.03)	822,953.20
July	59,318	702,443.76	119,288.50	36,895.80	4,686.12	27,347,436	431,323.76	16,107.64	57,074.10			(230.00)	1,367,589.68	(382,001.98)	985,587.70
August	55,111	652,624.46	110,828.22	34,279.04	4,353.77	27,197,172	428,953.80	16,019.13	56,760.50			(224.00)	1,303,594.92	(379,261.11)	924,333.81
September	49,879	590,667.12	100,306.67	31,024.74	3,940.44	22,115,634	348,807.78	13,026.11	46,155.33			(224.00)	1,133,704.19	(334,701.21) (2)	799,002.98
October	43,239	512,036.24	86,953.63	26,894.66	3,415.88	20,408,680	321,885.70	12,020.71	42,592.92			(34.00)	1,005,765.74	(312,390.86)	693,374.88
November	39,473	467,439.27	79,380.20	24,552.21	3,118.37	20,553,045	324,162.63	12,105.74	42,894.20			(34.00)	953,618.62	(369,120.69)	584,497.93
December	44,000	521,048.00	88,484.00	27,368.00	3,476.00	24,375,396	384,448.75	14,357.11	50,871.45			(34.00)	1,090,019.31	(400,968.06)	689,051.25
January, 2006	38,139	448,476.50	103,318.55	23,569.90	(17,810.91)	22,409,117	385,795.36	12,571.51	60,034.02			(34.00)	1,015,920.93	(336,204.71)	679,716.22
February	40,405	475,122.40	109,457.15	24,970.29	(18,869.14)	20,655,715	355,608.79	11,587.86	55,336.66			(34.00)	1,013,180.01	(479,086.63)	534,093.38
March	38,575	453,603.43	104,499.68	23,839.35	(18,014.53)	21,836,675	375,940.20	12,250.37	58,500.45			(34.00)	1,010,584.95	(367,667.64) (3)	642,917.31
Expense Totals	539,906	\$6,383,845.99	\$1,167,500.04	\$335,353.06	\$36,287.77	272,516,531	\$4,391,848.53	\$158,694.98	\$328,354.24	5,825	\$6,990.00	(\$1,194.00)	\$12,807,680.61	(\$4,508,226.17)	\$8,299,454.44

(1) Includes (\$230,692.52) of corrections of capacity payments for the months of November 2004 - February 2005.

(2) Includes \$14,231.48 of corrections.

(3) Includes \$39,054.57 of corrections.

(The Accountants Compilation Report and accompanying comments are an integral part of this statement.)

PERU (INDIANA) MUNICIPAL ELECTRIC UTILITY

PRO FORMA ANNUAL CASH OPERATING EXPENSES

See Explanation of Adjustments, pages 7 - 13

No inflation adjustment made.

	12 Months Ended 3/31/06	Adjustments	Ref	Pro Forma
<u>Steam Power Generation</u>				
Salaries and wages	\$666,462	\$90,958	(1)	\$757,420
Coal and fuel consumption	1,515,569			1,515,569
Materials and supplies	156,335			156,335
Ash disposal	36,344			36,344
General maintenance	7,057			7,057
Miscellaneous	40,613			40,613
Sub-totals	<u>2,422,380</u>	<u>90,958</u>		<u>2,513,338</u>
<u>Purchased Power</u>				
Purchased power	12,807,680	546,487	(2)	13,354,167
Capacity payments	(4,508,226)	230,693	(2)	(4,277,533)
Sub-totals	<u>8,299,454</u>	<u>777,180</u>		<u>9,076,634</u>
<u>Transmission and Distribution</u>				
Salaries and wages	723,675	98,799	(1)	822,474
Underground line	101,197			101,197
Tree trimming	127,982			127,982
Overhead lines	76,914	10,000	(3)	86,914
Materials and supplies	40,427			40,427
Street lighting and signal	44,739			44,739
Chemical treatment	24,500			24,500
Miscellaneous	19,813			19,813
Sub-totals	<u>\$1,159,247</u>	<u>\$108,799</u>		<u>\$1,268,046</u>

(Continued on next page)

(The Accountants Compilation Report and accompanying
comments are an integral part of this statement.)

PERU (INDIANA) MUNICIPAL ELECTRIC UTILITY

(Cont'd)

PRO FORMA ANNUAL CASH OPERATING EXPENSES

See Explanation of Adjustments, pages 7 - 13

No inflation adjustment made.

	12 Months Ended 3/31/06	Adjustments	Ref	Pro Forma
<u>Commercial and Sales Promotion</u>				
Salaries and wages	\$144,029	\$19,647	(1)	\$163,676
Materials and supplies	40,851			40,851
Sales promotion	4,847			4,847
Sub-totals	<u>189,727</u>	<u>19,647</u>		<u>209,374</u>
<u>Administrative and General</u>				
Salaries and wages	462,194	63,088	(1)	525,282
Employee benefits	554,389	91,450	(4)	645,839
Pensions	191,206	45,863	(5)	237,069
FICA and Medicare	159,438	25,075	(6)	184,513
Materials and supplies	35,722			35,722
Outside services	113,477	5,237	(7) (8)	118,714
Transportation	59,821			59,821
General maintenance	18,382			18,382
Seminars, education and safety	53,755	(7,169)	(8)	46,586
Insurance	228,040	(7,384)	(9)	220,656
Payment in lieu of property taxes	161,078	69,417	(10)	230,495
Miscellaneous	108,876	9,400	(11)	118,276
Utility receipts tax	215,355	(472)	(12)	214,883
Sub-totals	<u>2,361,733</u>	<u>294,505</u>		<u>2,656,238</u>
Totals	<u>\$14,432,541</u>	<u>\$1,291,089</u>		<u>\$15,723,630</u>

(The Accountants Compilation Report and accompanying
comments are an integral part of this statement.)

PERU (INDIANA) MUNICIPAL ELECTRIC UTILITY
PRO FORMA ANNUAL CASH OPERATING EXPENSES
(Explanation of Adjustments)

(Cont'd)

Adjustment (1)

To adjust test year salaries and wages for approved union contract and 2007 pay rates.

Pro forma salaries and wages - hourly*	\$1,553,242
Pro forma salaries and wages - salaried*	<u>795,986</u>
Sub-total	2,349,228
Less test year salaries and wages*	<u>(2,076,736)</u>
Adjustment	<u><u>\$272,492</u></u>

* Does not include pay for clothing, car allowance, or education as these types of pay do not increase along with the pay rate.

(Continued on next page)

(The Accountants Compilation Report and accompanying
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PERU (INDIANA) MUNICIPAL ELECTRIC UTILITY

(Cont'd)

PRO FORMA ANNUAL CASH OPERATING EXPENSES
(Explanation of Adjustments)

Adjustment (2)

To normalize purchased power expense for the 2nd quarter 2006 IMPA wholesale electric rates and charges and the loss of an industrial customer.

Test year KW purchased	539,906	
Less KW's purchased by former industrial customer	<u>(4,927)</u>	
Sub-total	534,979	
Times IMPA demand cost adjustment (2nd qtr 2006)	<u>(\$0.467)</u>	
Times IMPA rate per KW	15.086	
Pro forma demand cost adjustment		(\$249,835)
Pro forma demand charge expense		8,070,693
Test year KWH purchased	272,516,531	
Less KWH's purchased by former industrial customer	<u>(2,301,760)</u>	
Sub-total	270,214,771	
Times IMPA energy cost adjustment (2nd qtr 2006)	<u>\$0.002679</u>	723,905
Times IMPA rate per KWH	0.017777	4,803,608
Pro forma IMPA energy cost adjustment expense		
Pro forma energy charge expense		
Test year KVAR purchased	5,825	
Times IMPA rate per KVAR	<u>1.200</u>	
Pro forma reactive demand charge expense		6,990
Less test year switching credits		<u>(1,194)</u>
Pro forma purchased power expense		13,354,167
Less test year capacity payments		<u>(4,508,226)</u>
Add capacity payment corrections that occurred outside the test year		230,693
Less test year purchased power expense		<u>(8,299,454)</u>
Adjustment		<u>\$777,180</u>

Adjustment (3)

To adjust test year expense to allow for periodic pole testing expense.

Pro forma pole testing expense	\$50,000
Amortized	<u>5</u>
Adjustment	<u>\$10,000</u>

(Continued on next page)

(The Accountants Compilation Report and accompanying comments are an integral part of this statement.)

PERU (INDIANA) MUNICIPAL ELECTRIC UTILITY

(Cont'd)

PRO FORMA ANNUAL CASH OPERATING EXPENSES
(Explanation of Adjustments)

Adjustment (4)

To adjust test year employee benefits expense for current self insurance transfer and approved union contract.

Health & Life Insurance

Electric Utility portion of monthly transfer to Peru utilities health plan	\$36,263	
Times 12 months	<u>12</u>	
Pro forma health plan expense		\$435,156
Electric Utility portion of monthly benefits administration expense	7,743	
Times 12 months	<u>12</u>	
Pro forma benefits administration expense		92,916
Electric Utility portion of monthly retiree health insurance expense (net)	467	
Times 12 months	<u>12</u>	
Pro forma retiree health insurance expense		5,604
Electric Utility portion of monthly life insurance expense	219	
Times 12 months	<u>12</u>	
Pro forma life insurance expense		2,628

Clothing Allowance

Test year employee clothing expense	\$35,625	
Divided by number of test year employees	<u>36</u>	
Average clothing expense per employee	990	
Times number of applicable pro forma employees	<u>39</u>	
Pro forma clothing expense	38,610	
Less test year clothing pay	(500)	
Less test year expense	<u>(35,625)</u>	
Pro forma clothing allowance expense		<u>2,485</u>
Sub-total		<u>\$538,789</u>

(Continued on next page)

(The Accountants Compilation Report and accompanying
comments are an integral part of this statement.)

PERU (INDIANA) MUNICIPAL ELECTRIC UTILITY
PRO FORMA ANNUAL CASH OPERATING EXPENSES
(Explanation of Adjustments)

(Cont'd)

Balance carried forward from previous page	\$538,789
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Dental and Eye Care Allowance

Pro forma employee dental and eye care expense	57,460
Pro forma dependent dental and eye care expense	<u>49,590</u>
Total pro forma employee benefits expense	645,839
Less test year employee benefits expense	<u>(554,389)</u>
Adjustment	<u><u>\$91,450</u></u>

Adjustment (5)

To adjust test year PERF expense for the 2007 PERF rate.

Pro forma salaries and wages eligible for PERF	\$2,309,900	
Times 2007 PERF rate	<u>7.25%</u>	
Sub-total		\$167,468
Pro forma salaries and wages eligible for PERF	2,309,900	
Times 3% for employees share	<u>3.00%</u>	
Sub-total		<u>69,297</u>
Pro forma PERF expense		236,765
Less test year expense		<u>(190,902)</u>
Adjustment		<u><u>\$45,863</u></u>

(Continued on next page)

(The Accountants Compilation Report and accompanying
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PERU (INDIANA) MUNICIPAL ELECTRIC UTILITY
PRO FORMA ANNUAL CASH OPERATING EXPENSES
(Explanation of Adjustments)

(Cont'd)

Adjustment (6)

To adjust test year FICA expense for pro forma salaries and wages.

Pro forma salaries and wages	\$2,349,228
Times 7.65%	<u>7.65%</u>
Sub-total	179,716
Less test year expense	<u>(154,641)</u>
Adjustment	<u><u>\$25,075</u></u>

Adjustment (7)

To provide an annual allowance for rate case expenses amortized over a 10 year period.

Pro forma rate case expense	\$75,000
Amortized	<u>10</u>
Adjustment	<u><u>\$7,500</u></u>

Adjustment (8)

To adjust test year operation and maintenance expense for capital or non-recurring items.

<u>Date</u>	<u>Description</u>	<u>Amount</u>
July, 2005	Purchase of emergency equipment (capitalize)	(\$4,110)
July, 2005	Purchase of emergency equipment (capitalize)	(2,740)
July, 2005	Purchase of emergency equipment (capitalize)	(319)
November, 2005	Legal services provided for pole attachment agreement (non-recurring)	<u>(2,263)</u>
Adjustment		<u><u>(\$9,432)</u></u>

(Continued on next page)

(The Accountants Compilation Report and accompanying
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PERU (INDIANA) MUNICIPAL ELECTRIC UTILITY

(Cont'd)

PRO FORMA ANNUAL CASH OPERATING EXPENSES

(Explanation of Adjustments)

Adjustment (9)

To adjust test year insurance expense for pro forma insurance expense.

Pro forma commercial property insurance expense	\$74,681
Pro forma workman's compensation insurance expense	49,346
Pro forma machinery and equipment insurance expense	29,635
Pro forma director's and officer's insurance expense	19,894
Pro forma commercial general liability expense	18,842
Pro forma commercial automobile insurance expense	14,812
Pro forma commercial umbrella insurance expense	9,542
Pro forma crime/inland marine insurance expense	3,754
Pro forma public official bond expense	<u>150</u>
Pro forma insurance expense	220,656
Less test year expense	<u>(228,040)</u>
Adjustment	<u><u>(\$7,384)</u></u>

Adjustment (10)

To adjust test year payment in lieu of property taxes for current utility plant in service values and property tax rates for 2005 payable 2006.

Utility plant in service as of 3/31/06 (unaudited)	\$44,592,194
Accumulated depreciation	<u>(27,750,930)</u>
Estimated Assessed Value	16,841,264
Times estimated percentage located inside city limits	<u>80%</u>
Estimated Assessed Value Inside City Limits	<u><u>\$13,473,011</u></u>
Payment in lieu of property taxes based on the corporate tax rate of \$1.881200 per \$100 of assessed value for 2005 payable 2006 taxes (net of property tax replacement credit of \$.090585)	\$230,495
Less test year expense	<u>(161,078)</u>
Adjustment	<u><u>\$69,417</u></u>

(Continued on next page)

(The Accountants Compilation Report and accompanying comments are an integral part of this statement.)

PERU (INDIANA) MUNICIPAL ELECTRIC UTILITY
PRO FORMA ANNUAL CASH OPERATING EXPENSES
(Explanation of Adjustments)

(Cont'd)

Adjustment (11)

To adjust test year expense to provide an allowance for utility newsletter expense.

Pro forma annual newsletter expense	\$20,000
Times electric portion (based on customer count)	<u>47%</u>
Adjustment	<u><u>\$9,400</u></u>

Adjustment (12)

To normalize Indiana Utility Receipts Tax expense.

Test year revenues (including penalties)	\$15,883,922
Less revenues from former industrial customer	(120,419)
Less municipal revenues	<u>(378,981)</u>
Sub-total	15,384,522
Times 1.4%	<u>1.4%</u>
Sub-total	215,383
Less exemption	(500)
Less test year expense	<u>(215,355)</u>
Adjustment	<u><u>(\$472)</u></u>

(The Accountants Compilation Report and accompanying
comments are an integral part of this statement.)

PERU (INDIANA) MUNICIPAL ELECTRIC UTILITY

CALCULATION OF PRO FORMA TRACKING FACTOR REVENUES

<u>Customer Class</u>	<u>Test Year KWH Sold</u>	<u>Adjustment (1)</u>	<u>Adjusted KWH Sold</u>	<u>Times Tracking Factor (2)</u>	<u>Pro Forma Tracking Factor Revenues</u>
Residential Service (RS)	98,522,363		98,522,363	0.011560	\$1,138,919
Power Service (PS)	29,272,414		29,272,414	0.013460	394,007
General Service (GSA-1)	128,202,892	(2,301,760)	125,901,132	0.014044	1,768,155
Municipal Street Lighting Service (MSL-1)	1,457,993		1,457,993	0.004762	6,943
Traffic Signal Service (SL)	142,318		142,318	0.010831	1,541
Totals	<u>257,597,980</u>		<u>255,296,220</u>		<u>\$3,309,565</u>
Pro forma tracking factor revenues					\$3,309,565
Less test year tracking factor revenues					<u>(2,781,623)</u>
Adjustment					<u><u>\$527,942</u></u>

(1) To adjust test year KWH sold for loss of industrial customer.

(2) Approved 3rd quarter of 2006 tracking factor effective for July's billing, proposed to be rolled into base rates.

(The Accountants Compilation Report and accompanying
comments are an integral part of this statement.)

PERU (INDIANA) MUNICIPAL ELECTRIC UTILITY

PRO FORMA ANNUAL REVENUE REQUIREMENTS AND ANNUAL REVENUES

See Explanation of References, page 16

Revenue Requirements:

Operation and maintenance expense (1)	
Purchased power	\$9,076,634
Other	6,646,996
Additional revenues for return on utility plant in service (2)	960,000
Depreciation expense (3)	<u>1,466,484</u>
Total Revenue Requirements	<u>\$18,150,114</u>

Annual Revenues:

City residential (4)	\$3,544,443
Rural residential (4)	3,082,366
City commercial (4)	1,164,392
Rural commercial (4)	505,766
General service (5)	6,868,200
Security lighting (4)	147,483
Street lighting (4)	7,935
Municipal (4)	378,981
Tracking factor revenues (6)	<u>527,942</u>
Sub-totals	16,227,508
Interest income (4)	132,670
Penalties (4)	63,937
Other (4)	<u>86,987</u>
Total Available Revenues	<u>\$16,511,102</u>
Additional Revenues Required	1,639,012
Additional utility receipts tax (7)	<u>29,813</u>
Total	<u>\$1,668,825</u>
Approximate Across-The-Board Increase In Present Rates and Charges*	<u>10.3%</u>
Resulting Approximate Average Residential Bill (Presently \$49.64 for 700 KWH) - Inside City**	<u>\$54.76</u>
Resulting Approximate Average Residential Bill (Presently \$70.29 for 1,000 KWH) - Inside City**	<u>\$77.53</u>

* Proposed to be phased-in over a two year period.

** Includes IURC approved quarterly purchased power tracking factor as of July, 2006.

(Continued on next page)

(The Accountants Compilation Report and accompanying
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PERU (INDIANA) MUNICIPAL ELECTRIC UTILITY

(Cont'd)

PRO FORMA ANNUAL REVENUE REQUIREMENTS AND ANNUAL REVENUES
(Explanation of References)

- (1) See "Pro Forma Annual Operating Expense," pages 5 - 13.
- (2) To provide an allowance for return on utility plant in service, see page 17.
- (3) To provide an allowance for replacements and improvements based upon pro forma depreciation expense, see page 29.
- (4) Assumed at test year amounts.
- (5) To adjust test year general service revenues for loss of industrial customer.

Test year general service revenues	\$6,988,619
Less test year revenues of industrial customer	<u>(120,419)</u>
Pro forma general service revenues	<u><u>\$6,868,200</u></u>

- (6) Pro forma additional tracking factor revenues per proposed tracking factor roll in to base rates, see page .
- (7) To provide an allowance for additional Indiana utility receipts tax.

Pro forma revenues	\$17,896,333
Less pro forma municipal revenues	<u>(418,016)</u>
Sub-total	17,478,317
Times 1.4%	<u>1.4%</u>
Sub-total	244,696
Less adjusted expense	<u>(214,883)</u>
Additional Indiana utility receipts tax	<u><u>\$29,813</u></u>

(Continued on next page)

(The Accountants Compilation Report and accompanying comments are an integral part of this statement.)

PERU (INDIANA) MUNICIPAL ELECTRIC UTILITY

CALCULATION OF RETURN ON UTILITY PLANT IN SERVICE

I. Pro Forma Net Operating Income

Pro forma annual operating revenues	\$18,047,257
Less pro forma annual cash operating expenses	(15,723,630)
Less pro forma additional Indiana Utility Receipts Tax	(29,813)
Less pro forma depreciation expense	<u>(1,466,484)</u>
Pro forma net operating income	<u><u>\$827,330</u></u>

II. Pro Forma Rate Base

Utility plant in service (3/31/06)	\$44,414,398
Less accumulated depreciation (3/31/06)	<u>(27,750,930)</u>
Net utility plant in service	16,663,468
Add inventory (3.25 year average)	300,618
Add static working capital requirement (1)	637,702
Less contributions in aid of construction	<u>(954,541)</u>
Total pro forma rate base	<u><u>\$16,647,247</u></u>

III. Pro Forma Rate of Return

	<u><u>5.0%</u></u>
(1) Pro forma cash operating expenses	\$15,723,630
Less fuel for steam	(1,515,569)
Less purchased power	(9,076,634)
Less utility receipts tax	<u>(29,813)</u>
Sub-total	5,101,614
Times factor for 45 days	<u>0.125</u>
Working capital requirement	<u><u>\$637,702</u></u>

(The Accountants Compilation Report and accompanying
comments are an integral part of this statement.)

PERU (INDIANA) MUNICIPAL ELECTRIC UTILITY

SCHEDULE OF PRESENT AND PROPOSED RATES AND CHARGES

		Approved 3rd Quarter 2006 Tracker		Total	Phase		
Present (1)					I (2)	II (3)	
<u>Schedule RS-1 (Residential Service)</u>							
Energy Charge, Per Month:							
First	300 KWH	\$0.05834	\$0.011560	\$0.06990	\$0.07350	\$0.07710	
Next	700 KWH	0.05075	0.011560	0.06231	0.06552	0.06873	
Above	1,000 KWH	0.04780	0.011560	0.05936	0.06242	0.06547	

Service Charge, Per Month:

Service Within City Limits:	3.75	3.94	4.14
Service Outside City Limits:	5.70	5.99	6.29

Minimum Charge, Per Month:

The monthly minimum charge shall be the applicable service charge.

Schedule GSA-1 (General Service)

Energy Charge, Per Month:

First	500 KWH	0.06340	0.014044	0.07744	0.08143	0.08542
Next	2,000 KWH	0.05235	0.014044	0.06639	0.06981	0.07323
Next	2,500 KWH	0.04718	0.014044	0.06122	0.06437	0.06753
Above	5,000 KWH	0.04496	0.014044	0.05900	0.06204	0.06508

Service Charge Per Month:

Service Within City Limits - Single Phase	4.50	4.73	4.96
Service Outside City Limits - Single Phase	6.40	6.73	7.06
Service Within City Limits - Three Phase	5.60	5.89	6.18
Service Outside City Limits - Three Phase	8.00	8.41	8.82

Minimum Charge, Per Month:

The monthly minimum charge shall be the applicable service charge.

- (1) Present rates and charges per IURC Cause No. 39357, June of 1992
- (2) Represents a 5.15% Phase I across-the-board increase in present rates and charges to become effective immediately upon approval of the IURC.
- (3) Represents a total 10.30% across-the-board increase in present rates and charges (an approximate 4.90% increase over Phase I) to become effective one year after the implementation of the Phase I rates and charges.

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(The Accountants Compilation Report and accompanying
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PERU (INDIANA) MUNICIPAL ELECTRIC UTILITY

(Cont'd)

SCHEDULE OF PRESENT AND PROPOSED RATES AND CHARGES

	Present (1)	Approved 3rd Quarter Tracker	Total	Phase	
				I (2)	II (3)
<u>Schedule PS (Power Service)</u>					
Charge Per KWH, Per Month	\$0.030417	\$0.013460	\$0.043877	\$0.046137	\$0.048396
Charge Per KW, Per Month	5.50			5.78	6.07
Minimum Charge, Per Month					
The monthly minimum charge shall be the demand charge.					
<u>Schedule SL-1 (Security Lighting Service)</u>					
Charge Per Type of Lamp, Per Month					
175 watt mercury vapor	\$4.97			5.23	5.48
400 watt mercury vapor	7.47			7.85	8.24
100 watt sodium vapor	3.49			3.67	3.85
250 watt sodium vapor	6.70			7.05	7.39
<u>Schedule TL (Traffic Signal Service)</u>					
Charge Per KWH, Per Month	0.04612	0.010831	0.05695	0.05988	0.06282
<u>Schedule MSL-1 (Municipal Street Lighting Service)</u>					
Charge Per KWH, Per Month	0.05856	0.004762	0.06332	0.06658	0.06984
<u>Special Contracts - Flat Rates</u>					
Outdoor Lighting Service, Per Month - Account Number					
2106124001	5.60			5.89	6.18
2106126000	5.60			5.89	6.18
Telephone Booth Service, Per Month - Account Number					
0101109000	3.40			3.58	3.75
0102084000	3.40			3.58	3.75
0103073000	3.40			3.58	3.75
0103116000	3.40			3.58	3.75
250623100	3.40			3.58	3.75

- (1) Present rates and charges per IURC Cause No. 39357, June of 1992
- (2) Represents a 5.15% Phase I across-the-board increase in present rates and charges to become effective immediately upon approval of the IURC.
- (3) Represents a total 10.30% across-the-board increase in present rates and charges (an approximate 4.90% increase over Phase I) to become effective one year after the implementation of the Phase I rates and charges.

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(The Accountants Compilation Report and accompanying comments are an integral part of this statement.)

PERU (INDIANA) MUNICIPAL ELECTRIC UTILITY

SCHEDULE OF PRESENT AND PROPOSED RATES AND CHARGES

	Present (1)	Approved 3rd Quarter Tracker	Total	Phase	
				I (2)	II (3)
<u>Special Contracts - Flat Rates (Cont'd)</u>					
Traffic Light Service, Per Month - Account Number					
1001093000		\$12.75		\$13.41	\$14.06
2003200000		12.75		13.41	14.06
2006125000		8.50		8.94	9.38
Other Service, Per Month - Account Number					
NIPSCO		1.70		1.79	1.88
Cardinal Communications		225.92		237.55	249.19

- (1) Present rates and charges per IURC Cause No. 39357, June of 1992
- (2) Represents a 5.15% Phase I across-the-board increase in present rates and charges to become effective immediately upon approval of the IURC.
- (3) Represents a total 10.30% across-the-board increase in present rates and charges (an approximate 4.90% increase over Phase I) to become effective one year after the implementation of the Phase I rates and charges.

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PERU (INDIANA) MUNICIPAL ELECTRIC UTILITY
Peru, Indiana

UNAUDITED SUPPLEMENTAL DATA

PERU (INDIANA) MUNICIPAL ELECTRIC UTILITY

COMPARATIVE STATEMENT OF NET ASSETS
(Unaudited)

	<u>As of December 31st,</u>			<u>As of</u>
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>3/31/06</u>
<u>ASSETS</u>				
Current Assets:				
Operating cash and cash equivalents	\$2,028,253	\$1,247,431	\$737,439	\$1,619,456
Accounts receivable - customers (net)	452,134	599,741	715,316	747,591
Accounts receivable - other	25,898	23,478	34,567	35,102
Interfund receivable	36,699			
Inventory - materials and supplies	276,641	343,709	232,250	124,409
Prepaid insurance	91,378	94,823	80,655	100,735
Prepaid expense				19,632
Interest receivable	824			
Claim on self insurance			327,643	360,030
Total Current Assets	<u>2,911,827</u>	<u>2,309,182</u>	<u>2,127,870</u>	<u>3,006,955</u>
Noncurrent Assets:				
Unrestricted Assets:				
Depreciation cash and cash equivalents	<u>1,536,489</u>	<u>1,979,082</u>	<u>3,067,683</u>	<u>2,350,059</u>
Restricted Assets:				
Deposit cash and cash equivalents	<u>112,625</u>	<u>224,085</u>	<u>131,760</u>	<u>132,580</u>
Capital Assets:				
Utility plant in service	41,331,337	43,869,839	44,414,392	44,414,398
Construction work in progress	2,021,215			177,796
Less accumulated depreciation	<u>(25,126,697)</u>	<u>(26,234,062)</u>	<u>(27,403,376)</u>	<u>(27,750,930)</u>
Total Net Capital Assets	<u>18,225,855</u>	<u>17,635,777</u>	<u>17,011,016</u>	<u>16,841,264</u>
Total Noncurrent Assets	<u>19,874,969</u>	<u>19,838,944</u>	<u>20,210,459</u>	<u>19,323,903</u>
TOTAL ASSETS	<u><u>\$22,786,796</u></u>	<u><u>\$22,148,126</u></u>	<u><u>\$22,338,329</u></u>	<u><u>\$22,330,858</u></u>

(Continued on next page)

(The Accountants' disclaimer of opinion
is an integral part of this statement)

PERU (INDIANA) MUNICIPAL ELECTRIC UTILITY

(Cont'd)

COMPARATIVE STATEMENT OF NET ASSETS

(Unaudited)

	<u>As of December 31st,</u>			<u>As of</u>
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>3/31/06</u>
<u>LIABILITIES</u>				
Current Liabilities				
Accounts payable	\$1,671,829	\$1,421,178	\$1,636,421	\$1,421,254
Accrued taxes	40,248	48,666	73,692	51,628
Accrued employee pensions and benefits	77,026	122,063	128,929	129,574
Sales tax payable	20,453	52,613	47,903	47,046
Interfund payable	14,967			
Health claims payable	97,999	103,918	306,072	306,216
Customer deposits	112,625	118,160	131,760	132,580
Payment in lieu of property taxes payable				40,270
Total Current Liabilities	<u>\$2,035,147</u>	<u>\$1,866,598</u>	<u>\$2,324,777</u>	<u>\$2,128,568</u>
<u>NET ASSETS</u>				
Invested in Capital Assets	18,225,855	17,635,777	17,011,016	16,841,264
Restricted Assets	112,625	224,085	131,760	132,580
Unrestricted	<u>2,413,169</u>	<u>2,421,666</u>	<u>2,870,776</u>	<u>3,228,446</u>
Total Net Assets	<u>\$20,751,649</u>	<u>\$20,281,528</u>	<u>\$20,013,552</u>	<u>\$20,202,290</u>

(The Accountants' disclaimer of opinion
is an integral part of this statement)

PERU (INDIANA) MUNICIPAL ELECTRIC UTILITY

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES
AND OTHER CHANGES IN FUND NET ASSETS

(Unaudited)

	Calendar Year			12 Months Ended 3/31/06
	2003	2004	2005	
Operating Revenues:				
City residential	\$2,961,993	\$3,077,614	\$3,497,295	\$3,544,443
Rural residential	2,538,993	2,674,441	3,027,560	3,082,366
City commercial	930,488	1,007,336	1,152,219	1,164,392
Rural commercial	429,772	466,852	504,600	505,766
General service	5,166,214	5,737,843	6,977,253	6,988,619
Security lighting	147,536	148,572	147,931	147,483
Street lighting	6,492	6,946	7,470	7,935
Municipal	299,657	318,178	368,620	378,981
Penalties	55,062	66,109	72,447	63,937
Other income	31,819	62,699	88,769	86,987
Total Operating Revenues	<u>12,568,026</u>	<u>13,566,590</u>	<u>15,844,164</u>	<u>15,970,909</u>
Operating Expenses:				
Steam power generation	1,119,939	1,656,537	2,466,253	2,422,380
Purchased power	6,942,336	7,351,016	8,441,371	8,299,454
Transmission and distribution	1,068,090	1,127,111	1,176,076	1,159,247
Commercial and sales promotion	282,055	210,320	191,066	189,727
Administrative and general	2,350,062	2,422,255	2,583,934	2,581,733
Sub-total	11,762,482	12,767,239	14,858,700	14,652,541
Depreciation	<u>1,306,712</u>	<u>1,359,322</u>	<u>1,383,255</u>	<u>1,390,213</u>
Total Operating Expenses	<u>13,069,194</u>	<u>14,126,561</u>	<u>16,241,955</u>	<u>16,042,754</u>
Net Operating Loss	<u>(501,168)</u>	<u>(559,971)</u>	<u>(397,791)</u>	<u>(71,845)</u>
Nonoperating Revenues:				
Interest income		34,528	108,476	132,670
Other income	51,399	30,552		
Contributions	50,484	24,770	21,339	10,041
Total Non-Operating Revenues	<u>101,883</u>	<u>89,850</u>	<u>129,815</u>	<u>142,711</u>
Change in net assets	(399,285)	(470,121)	(267,976)	70,866
Total Net Assets - Beginning	<u>21,150,934</u>	<u>20,751,649</u>	<u>20,281,528</u>	<u>20,131,424</u>
Total Net Assets - Ending	<u>\$20,751,649</u>	<u>\$20,281,528</u>	<u>\$20,013,552</u>	<u>\$20,202,290</u>

(The Accountants' disclaimer of opinion
is an integral part of this statement)

PERU (INDIANA) MUNICIPAL ELECTRIC UTILITY

COMPARATIVE SCHEDULE OF DETAILED OPERATING EXPENSES

	<u>Calendar Year</u>			<u>12 Months Ended 3/31/06</u>
	<u>2003</u>	<u>2004</u>	<u>2005</u>	
<u>Steam Power Generation</u>				
Salaries and wages	\$498,018	\$577,288	\$667,016	\$666,462
Coal and fuel consumption	376,161	781,306	1,537,721	1,515,569
Materials and supplies	104,079	100,854	148,142	156,335
Ash disposal	34,337	59,811	50,238	36,344
General maintenance	24,327	22,583	11,613	7,057
Miscellaneous	83,017	114,695	51,523	40,613
Sub-totals	<u>1,119,939</u>	<u>1,656,537</u>	<u>2,466,253</u>	<u>2,422,380</u>
<u>Purchased Power</u>				
Purchased power	9,491,961	10,344,767	12,602,368	12,807,680
Capacity payments	(2,549,625)	(2,993,751)	(4,160,997)	(4,508,226)
Sub-totals	<u>6,942,336</u>	<u>7,351,016</u>	<u>8,441,371</u>	<u>8,299,454</u>
<u>Transmission and Distribution</u>				
Salaries and wages	654,323	571,103	716,121	723,675
Underground line	75,385	140,185	104,310	101,197
Tree trimming	136,107	122,898	125,771	127,982
Overhead lines	52,695	90,060	81,352	76,914
Materials and supplies	35,007	70,589	63,769	40,427
Street lighting and signal	36,313	39,269	38,988	44,739
Chemical treatment	22,062	24,962	27,587	24,500
Station expense	7,598	13,084	2,972	
Miscellaneous	48,600	54,961	15,206	19,813
Sub-totals	<u>\$1,068,090</u>	<u>\$1,127,111</u>	<u>\$1,176,076</u>	<u>\$1,159,247</u>

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(The Accountants' disclaimer of opinion
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PERU (INDIANA) MUNICIPAL ELECTRIC UTILITY

(Cont'd)

COMPARATIVE SCHEDULE OF DETAILED OPERATING EXPENSES

	Calendar Year			12 Months Ended 3/31/06
	2003	2004	2005	
<u>Commercial and Sales Promotion</u>				
Salaries and wages	\$234,102	\$139,348	\$140,370	\$144,029
Materials and supplies		54,360	44,994	40,851
Uncollectible accounts	33,300			
Sales promotion	14,653	16,612	5,702	4,847
Sub-totals	282,055	210,320	191,066	189,727
<u>Administrative and General</u>				
Salaries and wages	402,929	420,550	460,218	462,194
Employee benefits	436,095	479,854	582,017	554,389
Pensions	174,550	186,458	182,586	191,206
FICA and Medicare	152,649	145,346	160,014	159,438
Materials and supplies	51,966	37,783	35,301	35,722
Outside services	55,929	89,659	115,768	113,477
Transportation	69,576	65,358	57,741	59,821
General maintenance	35,484	37,928	13,795	18,382
Seminars, education and safety	59,990	83,902	54,696	53,755
Insurance	312,958	241,336	230,011	228,040
Payment in lieu of property taxes and return	381,078	381,078	381,078	381,078
Miscellaneous	45,941	70,782	102,806	108,876
Utility receipts tax	170,917	182,221	207,903	215,355
Sub-totals	2,350,062	2,422,255	2,583,934	2,581,733
Totals	<u>\$11,762,482</u>	<u>\$12,767,239</u>	<u>\$14,858,700</u>	<u>\$14,652,541</u>

(The Accountants' disclaimer of opinion
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PERU (INDIANA) MUNICIPAL ELECTRIC UTILITY

COMPARATIVE STATEMENT OF CASH FLOWS

Increase (Decrease) in cash and cash equivalents

(Unaudited)

	<u>Calendar Year</u>			<u>12 Months Ended 03/30/06</u>
	<u>2003</u>	<u>2004</u>	<u>2005</u>	
Cash flows from Operating Activities:				
Cash received from customers	\$12,619,883	\$13,458,102	\$15,717,500	\$15,926,333
Cash paid to suppliers, employees and others	<u>(11,034,155)</u>	<u>(13,006,301)</u>	<u>(14,602,537)</u>	<u>(14,594,923)</u>
Net Cash from Operating Activities	<u>1,585,728</u>	<u>451,801</u>	<u>1,114,963</u>	<u>1,331,410</u>
Cash Flows from Capital and Related Financing Activities:				
Additions to utility plant	(1,846,770)	(769,244)	(758,494)	(973,312)
Contributions	<u>50,484</u>	<u>24,770</u>	<u>21,339</u>	<u>10,041</u>
Net Cash from Capital Financing Activities	<u>(1,796,286)</u>	<u>(744,474)</u>	<u>(737,155)</u>	<u>(963,271)</u>
Cash Flows from Investing Activities:				
Interest income	1,155	35,352	108,476	132,670
Other income	<u>51,399</u>	<u>30,552</u>		
Net Cash from Investing activities	<u>52,554</u>	<u>65,904</u>	<u>108,476</u>	<u>132,670</u>
Cash and Cash Equivalents:				
Increase (Decrease)	(158,004)	(226,769)	486,284	500,809
Beginning Balance	<u>3,835,371</u>	<u>3,677,367</u>	<u>3,450,598</u>	<u>3,601,286</u>
Ending Balance	<u>\$3,677,367</u>	<u>\$3,450,598</u>	<u>\$3,936,882</u>	<u>\$4,102,095</u>

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(The Accountants' disclaimer of opinion
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PERU (INDIANA) MUNICIPAL ELECTRIC UTILITY

(Cont'd)

COMPARATIVE STATEMENT OF CASH FLOWS

Increase (Decrease) in cash and cash equivalents

(Unaudited)

	Calendar Year			12 Months Ended 03/30/06
	2003	2004	2005	
Reconciliation of net income to cash provided from operations:				
Net Operating Loss	(\$501,168)	(\$559,971)	(\$397,791)	(\$71,845)
Adjustments to reconcile net income to net cash provided from operating activities:				
Depreciation Expense	1,306,712	1,359,322	1,383,255	1,390,213
Change in assets and liabilities:				
Decrease (Increase) in				
Accounts receivable - customer (net)	9,665	(147,607)	(115,575)	(39,378)
Accounts receivable - other	42,191	2,420	(11,089)	(5,198)
Interfund receivable	1	36,699		
Inventory - materials and supplies	73,419	(67,068)	111,459	246,486
Prepaid Insurance	(23,692)	(3,445)	14,168	(4,962)
Claim on self insurance			(327,643)	(232,444)
Increase (Decrease) in				
Accounts payable	614,975	(250,651)	215,243	(150,833)
Accrued taxes	(5,257)	8,418	25,026	10,722
Employee sick and pension	(32,611)	45,037	6,866	13,006
Sales tax payable	(15,496)	32,160	(4,710)	(7,518)
Interfund payable		(14,967)		
Health claims payable	97,999	5,919	202,154	178,041
Customer deposits	18,990	5,535	13,600	5,120
Net Cash Provided from Operations	<u>\$1,585,728</u>	<u>\$451,801</u>	<u>\$1,114,963</u>	<u>\$1,331,410</u>

(The Accountants' disclaimer of opinion
is an integral part of this statement)

PERU (INDIANA) MUNICIPAL ELECTRIC UTILITY

**COMPARISON OF ACCOUNT BALANCES WITH
MINIMUM BALANCES SUGGESTED**

As of March 31, 2006

	<u>Account Balance</u> (Unaudited)	<u>Minimum Balance Suggested (1)</u>	<u>Ref.</u>	<u>Variance</u>
<u>Account and Investment Balances:</u>				
Operating cash and cash equivalents	\$1,619,456	\$1,108,054	(2)	\$511,402
Depreciation cash and cash equivalents	2,350,059	1,466,484	(3)	883,575
Deposit cash and cash equivalents	<u>132,580</u>	<u>132,580</u>	(4)	
Totals	<u>\$4,102,095</u>	<u>\$2,707,118</u>		<u>\$1,394,977</u>

(1) Minimum balances suggested based on standard industry guidelines.

(2) The balance maintained in the operation and maintenance account should be sufficient to pay the expenses of operation, repair, and maintenance of the utility for the next succeeding two (2) calendar months.

Pro forma operation and maintenance expense (excluding purchased power)	\$6,646,996
Times factor for 2 months	<u>0.1667</u>
Minimum balance required	<u>\$1,108,054</u>

(3) No minimum balance required. However, as a general rule an amount equal to one year's depreciation expense is typically maintained in this account to provide a funding source for ongoing capital improvements.

Minimum balance suggested	<u>\$1,466,484</u>
---------------------------	--------------------

(4) Restricted for customer deposits.

(The Accountants' disclaimer of opinion
is an integral part of this statement)

PERU (INDIANA) MUNICIPAL ELECTRIC UTILITY

CALCULATION OF ADDITIONS TO UTILITY PLANT

PRO FORMA AND DEPRECIATION EXPENSE

(Unaudited)

I. Calculation of Average Annual Additions to Utility Plant
Funded Through All Sources

Utility plant in service at 12/31/02	\$41,336,653
<u>Calendar Year</u>	<u>Additions</u>
2003	(\$5,316)
2004	2,538,502
2005	544,553
As of 3/31/06	<u>6</u>
Total additions to utility plant	<u>3,077,745</u>
Utility plant in service at 3/31/06	<u>\$44,414,398</u>
Total additions to plant	\$3,077,745
Add reclassified items	<u>7,169</u>
Sub-total	3,084,914
Divide by period covered (3 years 3 months)	<u>3.25</u>
Average annual additions to utility plant	<u>\$949,204</u>

II. Calculation of Estimated Depreciation Expense

Utility plant in service at 3/31/06	\$44,414,398
Plus construction work-in-progress	177,796
Plus reclassified items	7,169
Less land	<u>(160,445)</u>
Depreciable utility plant	44,438,918
Times depreciation rate	<u>3.30%</u>
Annual depreciation expense	<u>\$1,466,484</u>

(The Accountants' disclaimer of opinion
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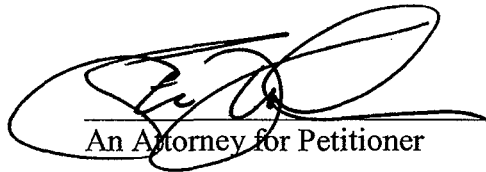
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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing "Verified Direct Testimony of Roger Merriman and Scott A. Miller, C.P.A." has been served by hand-delivery or United States mail, postage prepaid, this 1st day of February, 2007 on the following:

Jeffrey M. Reed
Office of Utility Consumer Counselor
N501 Indiana Government Center North
100 North Senate Avenue
Indianapolis, Indiana 46204



An Attorney for Petitioner

Michael B. Cracraft (#3416-49)
Steven W. Krohne (#20969-49)
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Facsimile: (317) 686-3288

Attorneys for Petitioner
City of Peru Utilities Electric Department

1. The first part of the report is a general introduction to the subject of the study. It discusses the importance of the study and the objectives of the research.

2. The second part of the report is a detailed description of the methodology used in the study. It includes information about the sample size, the data collection methods, and the statistical analysis techniques.

3. The third part of the report is a discussion of the results of the study. It presents the findings of the research and compares them with the previous studies in the field.

4. The fourth part of the report is a conclusion and a list of references. The conclusion summarizes the main findings of the study, and the references list the sources of information used in the research.